STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Ameren Rate Cases	:	Docket Nos. 07-0585 – 07-0590 (Consolidated)

REPLY BRIEF OF THE STAFF
OF THE ILLINOIS COMMERCE COMMISSION

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July 15, 2008

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Staff of the Illinois Commerce Commission ("Staff"), by and through its undersigned counsel, pursuant to Section 200.800 of the Illinois Commerce

Commission's ("Commission" or "ICC") Rules of Practice (83 Ill. Adm. Code 200.800), respectfully submits its Reply Brief in the above-captioned proceeding.

I. INTRODUCTION

In this proceeding, the Commission is investigating the November 2, 2007 requests for general increases in gas and electric delivery services rates pursuant to Article IX of the Illinois Public Utilities Act (the "Act"), 220 ILCS 5/9, filed by the Ameren Illinois Utilities, Central Illinois Light Company d/b/a AmerenCILCO ("CILCO"), Central Illinois Public Service Company d/b/a AmerenCIPS ("CIPS"), and Illinois Power Company d/b/a AmerenIP ("IP") (collectively, "Ameren", the "Companies", or the "AIU"). Initial Briefs ("IB") were filed on July 3, 2008, by the Cities of Champaign, Urbana, Decatur, Bloomington and Monticello and the Town of Normal, Illinois (the "Cities"), the Kroger Co. ("Kroger"), Constellation NewEnergy – Gas Division, LLC ("CNE-Gas"), the Illinois Industrial Energy Consumers ("IIEC"), AARP, the Commercial Group, the People of the State of Illinois (the "AG"), Staff, the Citizens Utility Board ("CUB"), and Ameren. Staff's Initial Brief identified and responded to many if not most of the arguments raised in the Companies' Initial Brief. In this Reply Brief, Staff has incorporated many of those responses by reference or citation to Staff's Initial Brief. However, in the interest of brevity, Staff has not raised and repeated every argument and response previously addressed in Staff's Initial Brief. Thus, the omission of a response to an argument that Staff previously addressed simply means that Staff stands on the position taken in Staff's Initial Brief because further or additional comment is neither needed nor warranted. As explained in detail below and in Staff's Initial Brief, the arguments raised by Ameren lack merit and must be rejected.

II. RATE BASE

A. Introduction

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C. Contested Issues

1. Plant Additions Made Since the Last Rate Case

The purpose of Staff's review of plant additions was to verify the amounts that Ameren proposed to include in rate base for plant additions were adequately supported by documented evidence. (Staff IB, p. 8) To verify the costs through documented evidence, Staff relies upon external support and thus requested copies of invoices to support plant additions made since the last rate case. Evidence derived from or feeding into Ameren's general ledger is not external support. The plant addition costs proposed by Ameren were derived from the general ledger. Thus, additional evidence derived from or feeding into the Ameren's general ledger is duplicative, not independent third-party support. (Staff IB, pp. 35-37) Staff's plant addition adjustment is based upon the AIU's failure to provide external support for its proposed level of plant additions.

Throughout this proceeding Ameren has been in denial as to its obligation to provide support for items it is seeking to include in rate base (or as expenses). Section 9-201(c) of the Act clearly states:

> If the Commission enters upon a hearing concerning the propriety of any proposed rate or other charge …, the Commission shall establish the rates or other charges…, in whole or in part, or others in lieu thereof, which it shall find to be just and reasonable. In such hearing, the burden of proof to establish the justness and reasonableness of the proposed rates or other charges …, in whole and in part, shall be upon the utility. … 220 ILCS 5/9-201(c)

As the Companies concede, they "bear the initial burden to prove plant additions by a preponderance of the evidence." (Ameren IB, p. 16) However, the Companies err in their inference that they have carried that initial burden. Compliance with initial filing requirements does not equate to bearing the burden to prove plant additions. Neither does supplying "additional information" in response to Staff Data Requests and in rebuttal and surrebuttal testimonies necessarily prove the plant additions. It is not the quantity of documents produced or the timing of when the documents are produced that determines whether the Companies have met their burden of proof. The plant additions for which Ameren actually did provide invoice-by-invoice support were allowed by Staff.

(Staff Ex. 7, Sch. 2.03 E & G; Staff Ex. 14.0, pp 24-36, Sch. 14.07-E)

The method by which Staff presented its adjustment methodology, (in this case Staff identified the costs that it allowed rather than the invoices it disallowed), does not lead to a conclusion that Staff's disallowances are unsupported. (Ameren IB, pp. 16-17) An argument to the contrary is nonsensical. Moreover, as explained below, Staff's presentation of its adjustment was a direct result of how the Companies provided their supporting document, not vice versa. Staff was clear in the reasons for its adjustment; 1) duplicate invoices; 2) billings to the wrong company; 3) invoices not provided; 4) invoices do not correspond to the Summary Listing; 5) invoices do not identify the project or not related to the project; 6) illegible invoices; and/or 7) amounts paid via electronic transfer without a supporting invoice. (Staff IB, pp. 9-10) Once Staff identified its concerns, it was then up to Ameren to provide documentation that satisfied those concerns. Contrary to the Companies assertions, Staff's review of plant additions was consistent with its review in other docketed proceedings. In any event, the manner in which Staff reviewed the plant additions would not affect the Companies' burden of proof.

Ameren argues that the basis for Staff's plant additions adjustment is "*only* because of issues pertaining to the documentation of expenditures." (Ameren IB, p. 14) Ameren distinguishes this adjustment from one based on a cost being imprudent or unreasonable. (*Id*., see also p. 5) This is hair splitting. As discussed in Staff's Initial Brief, utilities are required to retain records and to support costs for a reason. If plant additions are allowed without requiring support then utilities could record phantom costs and seek recovery in rate base. (Staff IB, p. 20) In further clarification, Ameren's statement that “no party or witness in this case – including Ms. Everson – alleges that any expenditures on plant additions were improper or unreasonable” (Ameren IB, p. 14) is incorrect. Staff witness Greg Rockrohr is proposing a prudence disallowance regarding certain plant additions for security installations. (Staff Exhibits. 10.0 and 22.0)

Notwithstanding Ameren’s recitation of its production in its Part 285 filing and in response to Staff data requests, Ameren has not provided support for its plant additions. Ameren is apparently claiming that it has made a showing of the costs necessary to provide service by providing the minimum filing requirements and what amounts to a mountain of paper. (Ameren IB, p. 16) Part 285 simply provides the minimum filing requirements. Providing large quantities of documents, that cannot be reconciled to the general ledger, is not sufficient to satisfy Ameren’s burden of proof under Section 9-201(c). The documents Ameren provided to support plant additions were replete with deficiencies. (See Staff IB, pp. 24-34)

Ameren’s reliance on *City of Chicago v. Illinois Commerce Commission*, 478 N.E.2d 1369, 1375 (1985) for the premise that it need only make a “showing” of the costs necessary to provide service is misplaced. Ameren is proposing to include plant additions, for which it failed to provide support, in rate base. Absent external support, the Companies have not shown by a preponderance of the evidence that plant additions are reasonable. Ameren’s reliance on Commonwealth Edison Co., Docket Nos. 83-0537; 84-0555 (Order, pp. 183-184, August 23, 1989) is futile. As the Commission held:

> There is no presumption of reasonableness. Edison has the ultimate burden of proof to show that its plant expenditures are reasonable; this may be shown by the evidence of the Auditors, Staff, Intervenors or Edison. Where evidence is presented that indicates plant costs are unreasonable, Edison must show by a preponderance of the evidence that such costs were reasonable; this may be accomplished with evidence

presented by Edison or others, including the Auditors in this case. (*Id*.)

Ameren has alleged that it incurred its proposed plant additions costs, but has failed to provide support for them.

Ameren also states that no deficiency was noted regarding plant additions in the Administrative Law Judge's ("ALJ's") Deficiency Letter. Ameren's point is not clear. A quick look at the timing of these filings and deficiency letter indicates that the deficiency letter is not determinative of Staff adjustments. The logical outcome of an argument otherwise would be that no adjustment could be made on an issue unless Ameren failed to provide any of the required minimum filing requirements or a deficiency was noted in the ALJ's letter. Clearly, if this were the case, the timing of the filing and the deficiency letter would preclude any adjustment by Staff. Ameren filed its tariffs on November 2, 2007, the deficiency letter was sent to Ameren on December 4, 2007. (Staff IB, p. 2; Ameren IB, p. 18) Ameren's witness stated on cross-examination that the first of the CDs with plant addition information was provided to Staff for the first time on December 14, 2007. (Ameren IB, p. 18) Thus, no review of plant additions could have taken place beyond the information on total annual plant additions amounts that are required by Part 285.

Equally absurd is any implication that since Ameren prepared the required Part 285 schedules, its plant additions are supported by those schedules. When describing the voluminous information Ameren provided to Staff, Ameren lists the standard information filing requirements of Part 285 as part of its evidence to support its plant additions. (Ameren IB, p. 26) The standard filing requirements are described accurately by Ameren as the *minimum* information normally required of a utility to support its filing.

(*Id*.)

What Ameren does not explain is what the information required by Section 285.2030, Schedule B-5: Gross Additions, Retirements, and Transfers should contain. The required information includes the title; beginning balances, gross additions during the test year, retirements during the test year, transfers during the test year, ending plant balances and an explanation for transfers. (Section 285.2030(a)(b)) This information is provided in total by year for each plant function; nothing is provided with this information to demonstrate that the correct amounts for additions, retirements and transfers are the amounts recorded. Staff's task in a rate case when reviewing this information is to thoroughly examine the amounts underlying the totals provided in the minimum filing requirements and to determine if the correct amounts for additions, retirements and transfers are recorded in the Companies' books. Thus, merely providing the minimum filing requirements does not constitute support for the validity of the amounts that combine to form the totals in the Companies' books. (Ameren IB, p. 27) Again, the burden on Ameren was not simply to make a "showing", Ameren must support the costs it proposes to include in rate base.

a. Staff's Analysis

<u>Loading Factors</u>

When Staff requested a separate identification of the type and amount of all loading factors in connection with its review of plant additions, Ameren protested that "this would require an examination of each invoice." (Ameren IB, p. 19) Staff accepted Ameren's explanation that this would be unduly burdensome and time consuming. However, Staff could not accept invoices as support for a different level of costs than was reflected on the invoice. Ameren claims it provided Staff with the information necessary to complete a review of plant additions. (Ameren IB, p. 20) However, Ameren did not provide Staff with sufficient information to support all of the plant additions that it proposed be included in rate base. This is an important distinction. As discussed in Staff's Initial Brief, Staff does not know what documentation the Companies possess or the level of burden of producing the documentation. (Staff IB, pp. 42-46) The Companies know what documentation they possess, the difficulty of producing it, and the consequences of failing to produce support for their plant additions.

The Companies are well aware that unsupported plant additions will not be included in rate base, and thus are aware of the importance of locating and producing support for plant additions. If the Companies deem support to be overly burdensome to provide, Staff can complete its analysis without the additional documentation. But since costs cannot be included in rate base unless they are supported, the failure to provide support will inevitably result in adjustments. As discussed in Staff's Initial Brief, Ameren has a pattern of providing inadequate support and cannot plausibly deny that it was aware of the consequences. (Staff IB, pp. 10-15)

Ameren's provision of breakouts of the costs associated with each project in response to Staff data requests MHE 3.01-3.06 (Ameren IB, p. 19) was an ineffective substitute for providing the loading factors. In the breakouts, the loading factors were totaled by category and by project. In other words gross loading factors were provided, not specific amounts for individual line items for which there were differences between the line item on the summary listing and any invoice. It was not clear how much of the gross amounts in the breakouts related to such items and how much related to items for which no supporting document was provided. For example, the following table was provided for CILCO gas project number 14745:

AmerenCILCO Gas Project Number 14745 Description	**Amount**
CASH VOUCHERS ISSUED	$212,189.75
AFUDC	3,370.00
TRSFR IND TO DIR WO	20,388.57
AFUDC ADJUSTMENTS	(653.96)
PAYROLL DISTRIBUTION	119,544.00
TRANSPORTATION EXP	29,854.00
TOOL EXPENSE APPORT	11,253.00
LABOR EXP CAPITLIZD	108,654.00
STORES ISSUES	72,433.20
TOTAL	$577,032.56

(Tr. 895, Ameren Cross Exhibit Everson 1) The categories are broad descriptions and the total amounts for each category are useful only to confirm the total project amount. However, neither this information, nor the cost summaries, nor the invoices provided in the responses to MHE 3.01-3.06 enable a reviewer to determine why many of the amounts listed on the summary listings do not agree with the amounts on the invoices or why, for some amounts on the summary listing, no invoice was provided. (Staff IB, pp. 24-34) Ameren admits that it did not provide the complete information necessary for Staff to determine why certain individual invoice amounts did not match the summary listings provided by Ameren and that it did not explain why amounts appeared on the summary listing for which no supporting documentation such as an invoice or some other document that would provide support for various loading factors was provided. (Tr. pp. 432-433, 435-436, 438)

b. Ameren Should be Held Accountable for Failure to Comply with Preservation of Records Rules

c. Staff's Additional Plant Recommendations

Ameren complains if the Commission approves a permanent disallowance of the unsupported plant additions that the Commission would send a message that the Companies lose not only in this case, but in all future cases. (Ameren IB, p. 47) Ameren apparently believes that it would be unfair for the Commission to expect regulated utilities in Illinois to follow the Commission's rules. If the Commission agrees that a company must be able to support its plant additions in order for the plant to be included in rate base, the Commission would be sending the message that regulated utilities in Illinois must follow the Commission's rules such as the record retention rules.

Ameren incorrectly claims that there is no precedence for the permanent disallowance of prudent expenditures based on allegedly deficient documentation. (Ameren IB, p. 47) A review of Commission orders on this subject demonstrates that the Commission has ordered a permanent disallowance of plant based on a failure to support expenditures for the additions. Generally, the plant in service balance should always be determined by beginning with the last original cost balance ordered by the Commission, adding properly supported plant additions and subtracting documented retirements. To start with a number that includes plant additions that the Commission found to have deficient documentation in a previous case, improperly ignores and overrides the previous Commission order.

The notion that the Commission has not ordered permanent disallowances for lack of documentation does not bear scrutiny. The Commission, in four previous dockets made adjustments for unsupported plant additions due to poor or non-existent utility records. The effect of these orders is a permanent disallowance since the records were found to be non-existent or so deficient that the plant additions cannot be substantiated at the time of the orders or in a subsequent proceeding.

In Docket No. 04-0610, a rate proceeding of New Landing Utility, Inc., the Commission clearly laid out how the plant-in-service balance is determined:

> Staff witness Griffin calculated utility plant by beginning with the allowed level of Utility Plant for ratemaking purposes found in the previous rate case. (See 79-0676/79-0675 (cons.) at 11, 15 (Jan. 14. 1981)). Plant additions supported by documentation were added to the water and sewer rate bases. …Having reviewed the entire record in this proceeding, the Commission cannot accept the AG's proposal to utilize the Company's Annual Report as the basis for establishing rate base in this proceeding. It is clear that NLU's accounting procedures and records since the last rate case are flawed. Contrary to the AG's suggestion, the Commission simply cannot rely upon NLU's annual report and underlying accounting records to set rates in this proceeding. Thus, Staff's recommended approach to establishing rate base in this proceeding is adopted." (Order Docket No. 04-0610, pp. 4-5, entered July 19, 2005)

In Docket Nos. 03-0398/03-0399/03-0400/03-0401/03-0402(Consol.), a rate proceeding of Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company, and Northern Hills Water and Sewer Company, the Commission adjusted the current revenue requirement to reflect previous disallowances made by the Commission in the previous rate case. The order states:

> "Staff proposed adjustments to reflect rulings in previous Commission Orders. (Staff Group Ex. 2.0). These adjustments reduce rate base for Apple Canyon and Charmar. These adjustments also incorporate adjustments that were never made from the Commission's order in Docket No. 90-0475/92-0401, which concerned Apple Canyon, and Charmar's short form filing with a test year ending December 31, 1989. The Companies did not contest the adjustments." (Order Docket Nos. 03-0398/03-0399/03-0400/03-0401/03-0402(Consol.), p. 12, entered April 7, 2004)

The order also lends support that the Commission expects plant additions to be supported by documentation as the language below indicates:

> Staff proposed adjustments to reduce the test year plant amount to reflect those additions and retirements that the Companies could not verify. (Staff Group Ex. 2.0). These adjustments decreased plant for Cedar Bluff, Apple Canyon and Charmar. Cedar Bluff's test year plant was reduced by the amount of additions and retirements, for which, it could not provide any supporting documentation. Both Apple Canyon's and Charmar's test year plant were reduced by the amounts of additions, for which the Companies could not provide any supporting documentation. Corresponding adjustments to accumulated depreciation, depreciation expense, and accumulated deferred income taxes were also made. The Companies did not contest any of these adjustments. (Order Docket Nos. 03-0398/03-0399/03-0400/03-0401/03-0402(Consol.), p. 11, entered April 7, 2004)

In Docket No. 98-0045, a rate proceeding for Northern Hills Water Company, the order refers to the Company recording plant adjustments permanently on its books and records for adjustments from the prior rate case not reflected in the company's filing:

> The Company accepted Staff's recommended rate base adjustments as set forth on Appendix A, Schedule 4, and on Appendix C, Schedule 4. The Company agreed to record the plant adjustments permanently on its books and records when the transactions are complete. (Order Docket No. 98-0045, p. 4, entered October 21, 1998)

And, again in Docket No. 98-0046, a rate proceeding for Del Mar Water Corporation, the order states:

> The Company accepted Staff's recommended rate base adjustments as set forth on Appendix A, Schedule 4, and it agreed to record the plant adjustments permanently on its books and records when the transactions are complete. (Order Docket No. 98-0046, p. 3, entered October 21, 1998)

Ameren apparently has ignored the Commission's kinder and gentler messages regarding retention of records sent in two previous Ameren rate cases. A permanent disallowance would make it clear to Ameren that Ameren can't just continue to promise to do better, but continue to fail to comply with Commission rules with which Ameren must abide.

d. Ameren's Criticisms of Staff's Analysis are Unfounded

i. Overview

A constant theme in Ameren's brief is its repeated protests about Staff's workpapers and its failure to identify each invoice for which the costs were disallowed (Ameren IB, pp. 5, 15, 20-23, 24, 26, 49-51) Ameren continues to argue its failed Motion to Compel in its Initial Brief. (See Ameren IB, pp. 20-28) As has been explained previously, Staff witness Everson provided her work papers in response to the AIU's Data Request. Staff's work papers consisted of Staff's notes on the summary listing ("Summary Listing") for each project which accompanied Ameren's production of invoices. The Summary Listing was provided to Staff in pdf format; so that is the form from which Staff worked. Where Ameren used a check mark next to the invoices to indicate they were provided, Staff indicated with a slash mark going in the opposite direction on the same Summary Listing that it concurred that the expense amount should be included in the total project. Ameren protests that Staff did not provide Ameren with a listing of each and every invoice that Staff disallowed and contends that this "critical shortcoming" limited the ability of the Companies to refute Ms. Everson's analysis. (Ameren IB, p. 24) Ameren's argument is unfounded. Ameren has sufficient information to determine which specific invoices were disallowed by Staff. The argument seems to be that Staff should have provided Ameren with a detailed listing of each individual amount *disallowed* rather than the listing of amounts that Staff *allowed.* But, Ameren admits that Staff provided Ameren with a listing of individual cost amounts that Staff included in its project totals which was used to develop the adjustment percentage. Ameren's allegation that it is prejudiced by the presentation of Staff's adjustment in its work papers does not bear scrutiny. Ameren was perfectly capable of looking through the Summary Listings, identifying which invoices were disallowed, and then checking to see if they were duplicates, bills to the wrong company, etc.

The complaint about Staff's work papers must be considered in context; the Summary Lists and the format which Ms. Everson used to identify her findings came directly from Ameren. There is no difference between Staff using a slash to indicate if identified an invoice on a Summary Listing than Ameren using a check to indicate the invoice had been provided. Ameren's argument, that the very format that it found to be acceptable when making its production, was unacceptable when used by Staff is unpersuasive. Ameren has the facts at its disposal: the invoices were Ameren's, Staff identified the reasons for disallowance; Ameren had merely had to check the invoices for items which were disallowed to determine the relevant infirmity. As discussed in Staff's Initial Brief, Staff's disallowance was of a percentage of unsupported plant costs; it is not a disallowance of specific invoices or specific unsupported plant costs. (Staff IB, pp. 9-10) Ameren's claim that Staff failed to justify its adjustment is unfounded.

Another theme in Ameren's brief is its repeated assertions about the quantity of documents it produced. (*Id.*, pp. 5, 15, 16, 23, 26) Ameren did provide a mountain of paperwork to Staff throughout the case. (See Ameren Ex. 19.12; CD with 83 files; Ameren Ex. 43.6, Staff Stafford Cross Ex. 5; 6 CDs responsive to MHE 3.02-3.06) This voluminous information was provided without any roadmap until rebuttal. Each new production was provided with nothing to distinguish between new and old information. Ameren seemingly equates the quantity of its documentation with quality. The AIU describe the quantity of documents provided to support its costs as “massive amount of information provided”; “substantial evidence”; “voluminous” and an itemization of the number of 1,300 line items on Ameren Ex. 19.12. (Ameren IB, pp. 15, 27) Ameren repeatedly describes its efforts to support its project costs as: “unduly burdensome”; “unreasonably time consuming”, “a burdensome process of elimination” “a tedious process of elimination” and additionally, as “a massive amount of time and effort”. (Ameren IB, pp. 19, 22-23, 27)

Staff does not disagree with the characterization of the quantity of documents produced or that the review was unreasonably time consuming, burdensome, or tedious. But, rather than pointing the finger at Staff, Ameren should be reconsidering its methods of production. Ameren, by providing the type of information in its rebuttal Exhibit 19.12, proved that it did have the type of information that was requested by Staff in data requests MHE 3.01-3.06 and that it could at least, produce a document with explanations for differences between individual items on the summary sheet and the invoices. The explanations provided in Ameren Exhibit 19.12 should have been the starting point provided to Staff for the analysis, but as Ameren witness Stafford admitted on cross examination, the descriptions and the “road map” as he described it were provided for the first time in Ameren’s rebuttal. (Tr. 101, July 2, 2008)

Ameren boasts of its production of Exhibit 19.12 that provided explanations for the differences noted in Staff’s review between Ameren’s summary listings and the invoices. While the explanations in Ameren Ex. 19.12 may appear at first glance to be credible, Ameren could not substantiate many of those explanations which as discussed in Staff’s Initial Brief did not withstand scrutiny. (Staff IB, pp. 24-33) Contrary to

Ameren's claims that Staff "refused to consider" the additional information filed at the rebuttal and surrebuttal stages, (Ameren IB, pp. 5-6, 44), the record demonstrates that Staff requested clarification and additional support to substantiate Ameren's claims of various categories of explanations provided in its rebuttal exhibit Ameren Ex. 19.12. (See Tr. 436-444, June 10, 2008 and Staff Cross Ex. Stafford 3 & 4) Clearly, Staff considered the information filed at the rebuttal stage. Staff reviewed only a sampling of the information provided in Ameren Exhibit 19.12 because at that stage of the proceeding, there simply was not time to review and to ask specific questions on each explanation provided. (Staff Ex. 14.0, p. 11) Ameren's responses to Staff Data Requests did not alleviate Staff's concerns regarding the variances between invoice amounts and the Summary Listing. Ms. Everson testified that if anything, it reinforced her opinion that Ameren cannot support its requested level of plant additions. Her concerns are laid out in detail in her rebuttal testimony. (Staff Ex. 14.0, pp. 7-20) Staff found the explanations in Ameren Data Request Responses to be in direct conflict with his Ameren rebuttal Ex. 19.12. (*Id*., p. 11) As explained in Staff's Initial Brief, Ameren's responses regarding the deficiencies either retracted previous explanations or offered vague and non-specific information which cast doubt on the integrity of all of the explanations offered to the extent that Staff could not accept the explanations and therefore could not change its proposed adjustment. (Staff IB, pp. 13-14; 24-34)

ii. Statistical Sampling and Extrapolation to Population

Ameren discusses what it refers to as significant flaws in Staff's method of sampling Ameren's plant additions. (Ameren IB, pp. 22, 28, 32-34) Ameren's positions on statistical sampling and on extrapolating the result of an analysis on a sub-group of a population to the larger population that was not statistically sampled directly conflicts its own method for analyzing the reasonableness of AMS costs allocated to the Ameren Illinois Utilities. In his study of AMS services and costs, Ameren witness Adams chose a sample of 197 service requests (SRs) out of 881 SRs with allocation factors that affected the Ameren Illinois Utilities. He selected his sample by choosing SRs that had charges allocated to A&G accounts and that totaled more than $50,000 (Ameren Ex. 5.14, pp. 45-46). Yet, he used the results of his analysis of this judgmental sample from a sub-group of the population "to assess the reasonableness of AMS' costs allocated to each of the Ameren subsidiaries…" (*Id.*, p. 45) When asked on cross-examination how he determined the criteria of $50,000 for his sample, he admitted to relying upon his professional judgment. In addition, he also stated that "[i]f the larger dollars are being charged and allocated in an appropriate manner, we made the assumption that everything under $50,000 was as well." (Tr. p. 260, June 9, 2008) This judgment is strikingly similar to Ms. Everson's reliance on her experience and judgment that the larger projects would have better documentation and cost support than would smaller projects. (Staff IB, p. 22)

Apparently Ameren considers it proper to use professional judgment to develop a non-statistical sample for a sub-group of the population (i.e., SRs for A&G above $50,000) and apply the results of the review of that sample to the entire population (which includes SRs equal to and less than $50,000 that was not sampled as well as all non-A&G SRs allocated to AIU), but it is somehow improper for Staff to utilize its own professional judgment in its sampling of plant additions and apply the results of its analysis to all plant additions and propose an adjustment. This is clearly illogical and unacceptable. Ameren cannot have it both ways. Since Ameren continues to assert that Mr. Adams' AMS analysis should be relied upon by the Commission, it cannot credibly dismiss Ms. Everson's plant additions analysis.

Ameren offered the opinion that Ms. Everson did not properly plan her review. (Ameren IB, p. 29-30) While it is true that no written plan was prepared, that does not mean that no plan was developed by Ms. Everson prior to her review of plant additions. The record demonstrates that Staff requested and received a listing of projects of $500,000 or more prior to selecting its sample or conducting its review. Staff's request for information regarding plant additions projects with a total greater than $500,000 demonstrates that a plan existed to review plant additions projects with a total greater than $500,000. In addition, Ms. Everson indicated that she determined based on her experience at the Commission that it is reasonable to expect that more care in documentation is given to larger projects than to smaller ones; thus, better records would be available to support the larger projects. (Staff Ex. 14.0R, p. 34) Additional planning of the review is apparent in the record when it is noted that a sample of projects, rather than the entirety of all projects was reviewed. (Staff IB, p. 21) Thus, Ameren's claim that no planning took place is completely without merit.

iii. Guidelines at Other Agencies

Ameren contends that the Commission should be bound by audit guidelines promulgated by various other agencies, some of which are in different jurisdictions. (Ameren IB, pp. 29-31) Providing guidelines on documentation standards promulgated by the Internal Revenue Service, or the Department of Health and Human Services Office of Inspector General does not constitute a mandate in Commission proceedings.

As stated in Staff's Initial Brief, the only relevant agency in this proceeding is the Commission and its charge by the legislature to ensure that rates charged reflect the costs of service rendered by the utility. (Staff IB, pp. 27-28)

iv. Electronic Transfers

Ameren alleges that it provided all necessary supporting information to substantiate IP's electronic transactions and that Staff's adjustment related to those transactions is unfounded. (Ameren IB, pp. 39-40) This allegation is untrue and without merit. It is helpful to note the timeline with regards to the electronic transactions. Ameren did not provide invoices to correspond with the electronic transactions in its responses to Staff Data Requests MHE 3.01-3.06, and it also did not inform Staff that electronic invoices were not included in those responses. (Tr. 428, June 10, 2008) The remaining discussion of this issue has been completely addressed in Staff's Initial Brief and will not be repeated here. (Staff IB, pp. 39-42)

v. Changes in Corporate Ownership

Ameren complains that Staff refused to take into consideration the timing of the transactions reviewed and the changes in systems and corporate ownership into account when recommending a disallowance due to missing invoices or unsubstantiated amounts. (Ameren IB, pp. 37-39) As discussed in Staff's Initial Brief, Ameren has made this claim in two prior rate cases, one as far back as 1999. (Staff IB, p. 15) In each case, this excuse was rejected by the Commission and should be rejected again in the current rate cases.

This position is not convincing, particularly regarding the excuse of a change in corporate ownership. In Staff's view changes in corporate ownership, including the

Ameren acquisition, have absolutely no bearing on whether the AIU should be required to retain and promptly produce records. All of the entities were public utilities before and after the acquisition. AmerenUE existed before it acquired the other utilities. Ameren had an opportunity to conduct a due diligence or otherwise inquire as to the utilities' records before acquiring the utilities.

Certainly, when Ameren petitioned the Commission for approval of its reorganization, it never indicated that it was not accepting responsibility for production of records required to be retained. Ameren ignores the commitments it made and the Commission's orders in its three reorganization dockets when it insists that it should be granted an exemption due to its unsubstantiated claim that it is another corporate entity's failure to retain records.

Specifically, the Order in the CIPS/UE reorganization, Docket No. 95-0551, states in part:

> The Commission finds that CIPS and UE will be *subject to the laws, regulations, rules, decisions and policies governing the regulation of public utilities* after the merger and reorganization. (Order, p. 67, Docket No. 95-0551, dated September 10, 1997)(*emphasis added*)

Similarly, in the Ameren-CILCO reorganization proceeding, the Commission stated:

> The record shows that *CILCO will remain an Illinois public utility, subject to all applicable laws and rules.* In Conditions U1 and U2 of the Approval Conditions, Applicants have made commitments to ensure that the Commission would not be preempted from regulating certain aspects of their businesses solely due to Ameren's status as a registered holding company under PUHCA. Accordingly, the record supports this finding. (Order, p.11, Docket No. 02-0248, dated December 4, 2002) (*emphasis added*)

Furthermore, Ameren is ignoring its own declarations in the merger agreement when it acquired IP:

> **Finding 5: "the utility will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities."**
> **Applicant's Position**: *AmerenIP will be an Illinois public utility, subject to all laws and rules* applicable to Illinois public utilities. In Docket No. 95-0551 and Docket No. 02-0428, the Ameren Utilities made certain commitments intended to assure that the Commission would not be preempted from regulating certain aspects of their businesses solely due to Ameren's status as a registered holding company under PUHCA. As noted earlier in this Order, IP made the same commitments here assuming regulatory approval and closing of the Reorganization. Applicants' Ex. 11.0, p. 11-12. This commitment is embodied in Conditions 9 and 10 set forth on Appendix A to this order. (Order, p. 13, Docket No. 04-0294, dated September 22, 2004) (*emphasis added*)

In Docket 04-0294 the Commission conclusion stated:

> The evidence of record, including the conditions agreed to by Applicants, establishes that the Reorganization will not affect IP's status as an Illinois utility and that *it will remain subject to all applicable laws, regulation, rules, decisions, and policies* governing the regulation of Illinois utilities. (*Id*. p 14) (*emphasis added*)

Ameren places great reliance on the premise that it had no control over the actions of the prior owners. This is irrelevant and should be disregarded. When Ameren was seeking approval of its reorganizations, it committed to be subject to all of the rules and regulations; Ameren should be held to its commitment.

As explained in Staff's Initial Brief, Ameren's notion that there should be an exception for records that are hard to retrieve or that must be gleaned from retired systems is absurd. No such allowance is part of the Commission's record retention rules. (Staff Ex. 14.0R, p. 31) As discussed in Staff's Initial Brief, such a policy would incent the Companies to record phantom costs. (Staff IB, pp. 20; 34-35)

vi. Staff's Review

Ameren implies that Staff's review in this case is flawed because it does not replicate the review in all other cases or is not confined to the limitations that Ameren has apparently decided is proper. (Ameren IB, pp. 17-18, 40-41) This argument is without merit. Staff's review methods are subject to professional judgment based on the situation at hand. The Commission regulates a wide range of utility types - from a small sewer utility with fewer than 30 customers to very large utilities with over a million customers. While all of the companies regulated by the ICC must adhere to the same records retention rules, Staff must perform each review in a manner that is tailored to the individual company and its history in Commission proceedings. Specifically, as Staff noted, Ameren has a long and contentious history of not supporting its plant additions, particularly in two previous Ameren rate proceedings. (Staff IB, pp. 10-15)

Further, Ameren and its witnesses cannot realistically claim to be privy to the totality of Staff's review in any case before the Commission, not even its own. Ameren can speak to only its knowledge of what information was requested by Staff in its case, but Ameren cannot have any direct knowledge of how Staff reviewed the information. Ameren certainly cannot know all of the information reviewed by Staff in other companies' proceedings. Thus, any comments regarding the differences between Staff's review in this case being different from any other case is complete speculation and should not be accorded any weight.

In fact, issues related to invoices were contested in Ameren's last delivery services rate case. Ameren apparently has a very short memory of its own cases. Ameren incorrectly asserts that Staff employed an invoice-by-invoice approach that is at odds with Staff's approach to analyzing plant additions in other rate cases. (Ameren IB, p. 17) This assertion overlooks Ameren's last rate proceeding where plant additions were also an issue. The Order in that docket contains discussions of Ameren's positions including this excerpt from the section describing Ameren's position where the discussion concerns three invoices reviewed by Staff:

> Ameren provided *three invoices* in CILCO Ex. 16.14-WO 3648.pdf that total $75,681.13, for the plant additions Work Order 3648. This amount was listed as supporting documentation in rebuttal testimony, as shown on Respondent Ex. 16.14, Schedule 1, Page 3 of 3, line 17. (Order, p. 8, Docket No. 06-0070/06-0071/06-0072, dated November 21, 2006) (*emphasis added*)

Thus, although Ameren does not admit it, a very similar review was conducted in its last rate proceeding where plant additions were subject to a disallowance for lack of supporting documentation. Ameren's protestations regarding the differences in Staff's review in this proceeding must be disregarded.

It is not appropriate for each of Staff's reviews to be constrained by that which has been performed in prior cases. Ameren is attempting to convey the notion that not only should Staff's review in this case follow the same review as in the cases cited by Ameren, it is also claiming that Staff witness Everson's adjustment must be disallowed since it was at odds with other Staff witnesses in this case. (Ameren IB, p. 36) Once again, this claim is completely irrelevant. Ms. Everson's review concerned whether Ameren had sufficient documentation to support its plant additions and Mr. Rockrohr's adjustments to plant additions concerned whether plant held for future use should be included in rate base and whether Ameren was prudent in its purchasing of certain security installations. (Staff Ex. 22.0, pp. 3-4) Since the focus of each review was different, it is unrealistic to contend that one Staff member's analysis is flawed because it is different from another analysis conducted by another Staff member.

vii. 2004 Pro Forma IP Gas Plant Additions

Ameren erroneously contends that since IP was allowed certain pro forma plant additions in its last gas rate proceeding that any proposed disallowance on the actual expenditures associated with the pro forma amounts is a form of retroactive ratemaking. (Ameren IB, p. 39) As explained in Staff's Initial Brief, the pro forma plant additions which were allowed in IP's last gas rate proceeding were pro forma amounts and were not reviewed in that proceeding as actual plant additions. (Staff IB, pp. 23-24) The pro forma amounts were associated with projects that had reached a certain status and were thus reasonably certain to occur. It is disingenuous to suggest that, because IP was allowed a certain level of *pro forma* plant additions in a previous case, no disallowance related to the actual cost of those additions can be made in later rate cases. This is fully discussed in Staff's Initial Brief. (*Id*.)

viii. Other Audit Approaches

Ameren suggests that other audit approaches would provide substitute support for Ameren's inadequate invoice support. (Ameren IB, p. 42) The AIU suggest where invoices could not be located or another deficiency was identified but could not be explained, the costs could be supported through other audit approaches, including support provided by the underlying general ledger queries. (*Id*.) However, the details of the projects request by Staff were generated through various queries on the

Companies' General Ledger systems. (*Id.*, p. 19) The information generated through the queries to the General Ledger systems was used to compile the list of invoices and voucher numbers. (*Id.*) Clearly then underlying general ledger queries would simply be a repetition of the process that generated the list of invoices in the first place; it would not provide any additional support for the legitimacy of the costs. This alternative approach argument is completely without merit. Ameren suggests looking to the general ledger, or the continuing property records to provide support for records that were generated from those same systems. (Staff IB, pp. 35-37)

ix. Double Counting

Ameren's Initial Brief fails to recognize that Staff modified its plant adjustment to eliminate any double-counting of Staff witness Everson's adjustment for plant additions since the last rate case and Staff witness Rockrohr's adjustments for plant held for future use and security installations. Ameren states: "Ms. Everson's approach again is in error,…she is disallowing a second time some of the capital additions dollars Mr. Rockrohr has proposed to disallow." (Ameren IB, p. 37) Ameren cites to Ameren witness Stafford's rebuttal testimony for this proposition. This completely ignores Staff's rebuttal testimony where Ms. Everson indicates that she made changes to eliminate any double counting or double adjusting of plant additions prior to 2005i. (Staff Ex. 14.0R, p. 37) This modification is also incorporated into Staff's rebuttal schedules. (Staff Ex. 14.03 E, p. 2) On Schedules 14.03 E the total amounts of Staff witness' Rockrohr's adjustments to plant are removed before the adjustment percentage is applied to plant additions. (*Id*.) Thus, Ameren's assertion regarding double counting is erroneous and should be ignored.

e. Analysis of Ameren's Surrebuttal Evidence

Clearly, there was no opportunity for Staff to consider the information provided in surrebuttal. Lastly, Ameren's surrebuttal testimony and exhibits were filed on May 28, June 3, and June 4, 2008; errata were filed subsequently. Mr. Stafford admitted on cross-examination that the information on Ameren Ex. 43.6 contained a combination of old and new information with no designation of which line items contained new or previously provided explanations. (Tr. 1244, July 2, 2008) This lack of any indication of which information is new and which information has been previously provided forces the reviewer to comb through Exhibit 43.6 on a line by line basis to determine which line items contained different explanations from those previously provided in either Ameren Ex. 19.12 or in the six CDs from Ameren's original responses to Staff Data Requests MHE 3.01-3.06. Due to the late timing of its admission into the record and the necessity of reviewing each and every line item on Ameren Ex. 43.6 to distinguish items that had changed from Ameren Ex. 19.12, a thorough and complete review of this information was not feasible. Mr. Stafford demonstrated the difficulty of locating the invoices associated with individual line items on Exhibits 43.6 and 19.12 or on the original CDs of summary listings and invoice copies during cross-examination. (Tr. pp. 66-77) This is an extremely tedious process. However, due to the unreliability of the information provided at every juncture of this proceeding, the process must be completed before relying upon the information contained in those exhibits. A more complete discussion of the deficiencies of Ameren's surrebuttal exhibits is contained within Staff's Initial Brief. (Staff IB, p. 46-56)

Ameren alleges that it demonstrated the significant impact of Staff's refusal to consider Ameren's supplemental responses to Data Requests MHE 3.03 and 3.06. (Ameren IB, p. 45) All Ameren did was to manipulate Staff's Schedule 14.03 IP G schedule to show the mathematical change in the calculated percentage if the numerator in a fraction is changed. (Tr., p. 923, June 12, 2008) Ameren's manipulation assumed that the supplemental responses to MHE 3.03 and 3.06 should be incorporated into the schedule; and that is the ultimate question. As discussed in Staff's Initial Brief, in this supplemental response, the amount of $1,326,943 corresponding to electronic transactions for IP Gas project 19053 simply disappeared as if the transactions had never existed. Ameren provided no explanation for this extremely large change. There is no support or explanation for the sudden and drastic change to Ameren's response and thus, there is no support for Ameren's manipulation of Staff's schedule. Since these electronic transactions were a part of Staff's calculation of the adjustment percentage, in the absence of any other explanation, Ameren appears to have attempted to simply make them vanish. (See Staff IB, pp. 40-41)

2. Plant Additions Disallowed in the Last Rate Case

As it did regarding plant additions since last rate case, Ameren argued that Staff did not challenge or respond to positions or arguments in the Companies rebuttal. (Ameren IB, p. 52) This is incorrect. Ms. Everson reviewed only a sampling of the information and indicated that because Ameren attempted to rebut this adjustment with reasons similar to those it used for rebuttal of the disallowance of a percentage of plant additions since the last rate case she was addressing them together. (Staff Ex. 14.0, p. 7) As discussed above, Ms. Everson stated that the new information provided reinforced her concerns about Ameren's inability to support plant additions. (See *Id.*, pp. 7-20) Ameren's statement that "…the primary reasons Staff deemed an amount to be unsupported for AmerenCILCO are that taxes were paid for an invoice amount" (AmerenIB, p. 51) In fact, the primary reason that Staff deemed an amount to be unsupported is that the amount of the invoice differed from the amount on the Summary Listing. Ameren claims that the reasons for the differences are taxes or other loading factors, but Ameren has not supported this claim. Ameren's statement, "[l]ikewise, it appears the primary reasons Staff deemed an amount to be unsupported for AmerenIP are that two or more invoices are split between projects or that project an'or work numbers don't directly correspond…" (*Id.*, p. 52) is similarly deceptive. The reason Staff deemed these amounts unsupported is that Ameren did not provide support for the alleged reasons for the differences. What support Ameren did provide in the rebuttal stage was tested by Ms. Everson. (Staff Ex. 14.0, pp. 7-20) Ameren's responses to Staff's inquiries about the rebuttal information reinforced instead of quelled Staff's concerns. Ameren's responses regarding the deficiencies either retracted previous explanations or offered vague and non-specific information which cast doubt on the integrity of all of the explanations offered to the extent that Staff could not accept the explanations and therefore could not change its proposed adjustment. (Staff IB, pp. 13-14; 24-34)

Ameren's discussion of particular alleged flaws in Staff's analysis is unpersuasive. Ameren raises once again what could be a typographical error or a transposition in Staff's total of costs for IP project 25927. (Ameren IB, p. 51) In either event, the amount of difference, $9.74 is so insignificant in relation to the total of unsupported plant additions disallowed in the last case that changing that $9.74 will not affect the adjustment percentage.

Ameren discusses a specific project (AmerenCILCO electric project 3174) wherein Ameren claims that for one invoice, taxes are the reason for the difference between Ameren's summary listing and its invoices since the mathematical difference is exactly 6.25%. (Ameren IB, p. 51-52) What Ameren fails to describe is that the notation on Ameren Ex. 19.6 regarding the taxes was not provided until rebuttal and then consisted of a note on the summary list indicating: "6.25% of $2430" with an arrow pointing to an individual line item in the amount of $151.88. Apparently, Ameren assumed that because the discrepancy was equal to a percentage that happens to match a tax percentage in effect in some jurisdiction Staff should just accept that explanation at face value. Staff cannot presume that because a percentage difference matches a tax rate and sees a handwritten note on a list or on an invoice that the explanation is valid, but must perform additional analysis and review.

Another example from Ameren Ex. 19.6 is an invoice from the vendor NE Finch for $558.70 (reference # from listing 356821000) where a note is circled on the summary listing for CILCO work order 3174 that states: "See invoice for calc.". A look at the invoice does in fact reveal a handwritten set of four calculations with arrows pointing to one more calculation which finally ends with the amount of $558.72. For both of the items, the only assertion that has been proven is that the mathematical difference between the invoices and the summary listings has been provided in one or more calculations. This information does nothing to substantiate that these calculations (prepared for the rebuttal exhibit) are the actual reasons the invoices and the summary listings differ. Thus, similar to the issue regarding plant additions since the last rate case, explanations alone in the absence of supporting source documents which would tie the invoice to the tax rate, does not support the project cost amounts.

Another example Ameren provides concerns partial amounts of invoices allocated between projects. (Ameren IB, p. 52) Again, as discussed in Staff's Initial brief, Ameren's discussion that a supervisor or project manager dictated the allocation of amounts on the invoices should be accorded no weight. (Staff IB, pp. 26-29, 35) There is no evidence on the invoices of such a supervisory or project manager review that would indicate that only a partial amount of an invoice should be assigned to a particular project. No indication of the supervisory review or allocation decision was apparent on the invoices and even in rebuttal Ameren could only highlight the individual line item amounts from certain invoices to "support" its claim of partial amounts. As Staff witness Everson said on cross examination regarding plant additions, an explanation is not a substitute for source documents. (Tr. 915, June 12, 2008)

3. Plant Additions Associated with Electric Operations

a. Property Held for Future Use

Ameren continues to dispute Staff witness Greg Rockrohr's recommendation that the Commission disallow $375,935 from CIPS' rate base, which represents CIPS' cost to purchase a parcel of property that CIPS is holding for future use as a substation site. Ameren witness Ronald Stafford and Staff witness Rockrohr agree that the property held for future use cost component allows a utility to include property acquired for future utility service in rate base if the utility can demonstrate that the property will be placed in service within ten years of the test year. (Ameren Ex. 19.0 (Rev.), p. 47; Tr., p. 981, June 12, 2008) The contested issue in this proceeding regarding the parcel that CIPS purchased is whether CIPS adequately demonstrated that the substation it states will be built on the parcel will be placed in service within ten years of the test year. (Ameren IB, pp. 54-55; Staff IB, p. 64)

CIPS attempted to demonstrate that the subject parcel would be placed in service within ten years of the 2006 test year by discussing an overall need for more substation capacity in the Alton area. (Ameren IB, pp. 55-56) Specifically, Ameren witness David Strawhun identified a 10 MVA load associated with a planned ethanol plant, but also stated construction of that 10 MVA plant has been delayed. Mr. Strawhun also identified a 2 MVA load increase associated with expansion of area hospitals. He also discussed unknown load increases associated with possible future development along a planned extension of Interstate 255. (Ameren Ex. 35.0, pp. 4-5) Mr. Strawhun's testimony suggested that the only load increase that is more than conjecture at this time is the 2 MVA increase due to hospital expansion. A 2 MVA load increase by itself would be insufficient to justify an additional bulk supply substation, and since no one knows if and when other load increases will occur, no one yet knows if and when the North Alton Bulk Substation will be built. (Staff Ex. 22.0, p. 7)

Mr. Strawhun stated that even without the proposed ethanol plant load, the capacity of the existing Mississippi Bulk Substation is projected to be exceeded as early as 2009. (Ameren Ex. 35.0, pp. 4-5) Despite this projected overloading at Mississippi Bulk Substation in 2009, CIPS has not yet initiated its project to construct the North Alton Bulk Substation, which it stated it hopes to place in service in 2014. (*Id.*, p. 5) CIPS projected overloads at its Mississippi Bulk Substation in 2009 and so must take some action to avoid these projected overloads prior to its stated 2014 in-service date for the North Alton Bulk Substation. CIPS discussed adding a third transformer at its Mississippi Bulk Substation as one possible alternative to relieve its projected overloads. (Ameren Ex. 35.1, p. 1) Mr. Rockrohr referenced the alternative plan CIPS identified, and also referred to Docket 07-0310, in which ComEd changed its substation location after purchasing property, to illustrate that utilities sometimes change their plans. (Staff Ex. 22.0, p. 6) If CIPS increases capacity at its Mississippi Bulk Substation to avoid overloads in 2009, it is not at all clear that the North Alton Bulk Substation will be necessary in 2014.

In its Initial Brief, it appears Ameren misconstrued and/or mischaracterized Mr. Rockrohr's suggestion that CIPS' cost for the subject parcel would be more appropriately included in a future rate proceeding. Ameren stated, "There is no evidence supporting Mr. Rockrohr's implicit claim that a shorter standard time period for including plant held for future use in rate base is warranted where rate cases are filed more frequently." (Ameren IB, p. 61) Mr. Rockrohr never suggested that the Commission should utilize a time shorter than ten years when determining the appropriateness of including plant held for future use in rates. Mr. Rockrohr's suggestion that inclusion of CIPS' cost for the subject parcel in rate base would be more appropriate in a future proceeding was based upon his conclusion that CIPS did not adequately demonstrate its property would be placed in service within ten years of the test year, since CIPS does not yet know with certainty if and when it will complete its North Alton Bulk Substation. Mr. Rockrohr's testimony was that CIPS could instead propose that its costs for the parcel be included in rates after its North Alton Bulk

Substation project is further developed, at a time when it could adequately make its demonstration that the parcel would be placed in service within ten years of the test year. (Staff Ex. 22.0, p. 8)

Staff maintains its position that CIPS' cost for the subject parcel should not be allowed in rates at this time, particularly in light of the fact that, if built, the North Alton Bulk Substation would occupy only about 10% of the parcel that CIPS purchased. (*Id.*, p. 7)

b. Security System Installations

In its Initial Brief, Ameren responded to Staff witness Greg Rockrohr's recommendation that the Commission disallow the AIU's costs for new state-of-the-art security systems by discussing a need to protect critical assets from terrorist attack and criminal activity. (Ameren IB, pp. 63-66) However, not only did the AIU fail to demonstrate why the utility offices and operating yards where they installed the new security systems should be considered to be critical assets, but the AIU also could not explain why the existing security systems replaced at each of these facilities were inadequate. (Staff IB, p. 65) Incredibly, the AIU touted the features of the newly installed security systems without even knowing how much operating the new systems would cost ratepayers (Ameren Ex. 33.0, p. 5; Tr., p. 470, June 10, 2008)

The AIU stated that Illinois law requires that the AIU provide on-site safeguards to restrict physical access to critical infrastructure and that the utilities follow the most current security standards set for the by the NERC. (Ameren IB, pp. 63-64) The AIU also provided copies of two NERC security guidelines with its surrebuttal testimony. However, the NERC security guidelines do not by any stretch of the imagination require the AIU's installation of expensive state-of-the-art security systems at its offices and operating yards, but instead provide a list of possible security measures a utility should consider and choose from to restrict access: including fencing, perimeter alarms, signage, and security patrols. (Ameren Ex. 57.0, p. 5; Ameren Ex. 57.1; Ameren Ex. 57.2) Ameren witness Joseph Mullenschlader agreed that the NERC guideline provides a list of security features a utility may choose to implement, not a list of security features that a utility must implement. (Tr., pp. 468-469, June 10, 2008) The AIU never claimed or demonstrated that the existing security systems were replaced did not comply with the NERC guidelines.

In fact, the AIU were unable to demonstrate why existing security was inadequate and why new security systems were needed, considered no alternative security systems, did not competitively bid the security system installations, and do not know what costs are associated with operating the new security systems. (Staff IB, p. 65) None-the-less, amazingly, without possessing any of this information, the AIU still claim that it economically made sense to centralize and standardize all the equipment, software and field installations, and that the security systems were a prudent investment. (Ameren IB, pp. 71-72)

Staff's opinion remains that the AIU's security system investments were neither prudent nor used and useful in providing service to customers, and Staff maintains its position that these investments should be disallowed from rate base. (Staff IB, p. 66) The AIU stated that no party or witness alleges that any expenditure on plant additions were imprudent or unreasonable. (Ameren IB, p. 14) This claim made by the AIU in its initial brief is simply not true. The AIU's expenditures for security systems for its offices and operating yards at a time when ratepayers were reeling from the 2007 rate increases were both imprudent and unreasonable.

4. Cash Working Capital

The Commission should accept Staff's proposed adjustments to reduce the level of cash working capital ("CWC") to be included in rate base to: $(645,000) for IP Gas, $(1,563,000) for IP Electric, $(668,000) for CIPS Gas, $(1,060,000) for CIPS Electric, $151,000 for CILCO Gas, and $(72,000) for CILCO Electric. (Staff Ex. 15.0, Schedules 15.01; Staff IB, p. 66)

Ameren takes issue with four modifications made by Staff to the CWC requirements. The following cash working capital items are still in dispute:

1) Application of the Gross Lag methodology;

2) Capitalized payroll in CWC requirements;

3) Applying zero revenue lag days to pass-through taxes; and

4) Expense levels to which CWC factors are applied.

The arguments concerning these issues are theoretical, with a mixture of accrual accounting and cash flow concepts applied to support the arguments. However, a CWC calculation is not a precise science even though the arguments may imply otherwise. The arguments raised in these current proceedings have evolved from the last three Ameren rate proceedings and the recent rate proceeding of Peoples Gas and North Shore Gas. There are no definitive demonstrated answers that can be found in any regulatory textbook. The arguments become a blend of theory and reality. And, the only reality is the conclusions reached by the Commission in its prior cases. Thus, Staff's position in these proceedings is based on established Commission precedent.

a. Application of the Gross Lag Methodology

Ameren argues that Staff's application of the Gross Lag methodology inflates operating expense because revenues and expenses are not equal. (Ameren IB, pp. 75-76) Ameren's argument implies that revenues and expenses must be equal under the Gross Lag methodology. However, this argument can only be true if the Commission ordered it to be true in prior dockets. The "Gross Lag" methodology only exists in the prior rate proceedings before the Illinois Commerce Commission involving the AIU and Peoples Gas and North Shore Gas.

Staff's position is consistent with the prior orders of the Commission. In reality, revenues and expenses are never equal. If revenues and expenses are not equal, the Gross Lag methodology must be used because only the Gross Lag methodology considers both the *amounts* of cash revenues and cash expenses and the *timing* of when cash is received or paid. This feature is important because the Gross Lag methodology considers both the levels of cash revenues and cash expenses while the net lag method considers only the levels of expenses. (Staff Ex. 15, p. 4)

b. Capitalized Payroll in CWC Requirements

Ameren's explanation of its arguments against inclusion of capitalized payroll expenditures is fundamentally flawed. The Companies offered no logical reasoning for treating the instant docket in a manner inconsistent from the previous rate case other than to call the proceedings in Docket Nos. 06-0070/06-0071/06-0072 (Cons.) "flawed" for unspecified reasons. (Ameren IB, p. 87)

In their Initial Brief, despite devoting several pages repeating the same arguments already presented in their testimony, the Companies were not able to refute the underlying argument for including total payroll in the CWC requirement calculation: capitalized payroll is part of the Companies' day-to-day operations which require current cash flows. (Staff IB, p. 68) The Companies hope the Commission will overlook the obvious fact that payroll expenditures are part of the Companies day-to-day operations as Ameren witness Adams conceded during cross-examination. (Tr., p. 248, June 9, 2008)

The Companies also attempt to confuse the issue by implying that capitalized expenditures should not be included in the CWC requirement calculation because capitalized expenditures are included in rate base. (Ameren IB, p. 86) However, expenditures, whether expensed or capitalized, are not, in themselves, recovered by adding the CWC requirement to rate base – only the financing of the expenditure is recovered. CWC is the amount of funds required from investors to finance the day-to-day operations of the Companies. Adding CWC to rate base allows the investors to recover the time-value-of money associated with the cash outlay. (Staff IB, p. 67) Including the capitalized portion of payroll expense in determining the CWC requirements only affects the amount of CWC requirement added to rate base for financing day-to-day operations of the Companies, and does not affect the recovery of payroll expense itself. The Companies also attempt to advance an argument that revenues and expenses in the CWC requirement calculation must be equal. (Ameren IB, p. 86-87) This is obviously not the case since the Commission has adopted CWC requirement calculations in which revenues and expenses are not equal; both in Ameren's previous rate proceedings (Order, Docket Nos. 06-0070/06-0071/06-0072

(Cons.), November 21, 2006, p. 6 of each Appendix A, B and C) and in the most recent rate proceeding before the Commission (Order, Docket Nos. 07-0241/07-0242 (Cons.), February 5, 2008, p. 10 of Appendix A, p. 9 of Appendix B). Furthermore, in previous Ameren rate proceedings, Ameren has filed CWC requirement calculations in which revenues and expenses are not equal for CIPS Gas (Docket No. 03-0008, AmerenCIPS Ex. 5.8) and AmerenUE. (Docket No. 03-0009, AmerenUE Ex. 5.8)

c. Applying Zero Revenue Lag Days to Pass-Through Taxes

The AIU take exception with Staff's proposed treatment of pass-through taxes in calculating CWC requirements. The Commission should examine closely the difference in positions presented in Ameren's Initial Brief (Ameren IB, pp. 76-82) and Staff's Initial Brief (Staff IB, pp. 68-69). A cash flow consideration arises because there is a timing difference between the AIU's receipt of payment for pass-through taxes from the customer and the remittance of the taxes to the proper taxing authority. The difference in positions between Staff and Ameren is the extent of the timing difference. (Ameren IB, p. 77-78)

Ameren maintains that Staff does not reflect the true timing of cash receipts vs. cash outlays and that there is clearly a collections lag from the point of billing the customer for the pass-through tax until the receipt of the funds. (*Id.*, p. 78) Staff disagrees. The AIU have no cash requirements due to waiting for the customer to pay the pass-through taxes that were billed (Staff IB, p. 69) and Staff maintains that the collections lag should be zero.

Staff maintains that the AIU have incurred no costs associated with pass-through taxes as there has been no provision of service related to the pass-through taxes.

(Staff IB, p. 68) AIU's position requests recovery of cost that the AIU supposedly incurred from the date the service for the pass-through tax was provided by the AIU until the date that the AIU have access to the cash for the receipt of the pass-through taxes. Ameren claims that the AIU incur a cost associated with pass-through taxes for each of the following lags:

Meter reading lag - the average number of days between the mid-point of the service period and the meter reading date (Ameren Ex. 5.0, p. 11);

Billing lag - the average number of days between the date on which the meter was read and the date the customer was billed (Ameren Ex. 5.0, p. 12);

Collections lag - the average number of days from which the customer received the bill and the date that the AIU received payment from the customer (*Id.*);

Payment lag - the average number of days between the AIU's receipt of the customer's payment and the transmittal of the payment to the bank for collection from the customer's account (*Id.*); and

Bank float lag - the average number of days between the AIU's deposit of the customer's payment and the time the AIU have access to the cash. (*Id*., p. 13)

The table below compares the revenue lag for pass through taxes proposed by Staff and Ameren:

Revenue Lag for Pass-Through Taxes	**Per Staff**	**Per Ameren** **Ameren Ex 5.0, p. 14**
Meter Reading Lag	0.00	15.21
Billing Lag	0.00	1.72
Collections Lag	0.00	22.48
Payment Processing Lag	0.00	.57
Bank Float Lag	0.00	.96
Total Revenue Lag	0.00 Days	40.95 Days

Staff maintains that the AIU have had the benefit of having access to the funds provided by pass-through taxes from the time of receipt until the time of remittance. (Staff IB, p. 69) This benefit for the AIU is derived from the following time periods:

Service lead - the average number of days between the date the AIU received service and AIU were billed for that service, but since the AIU received no service for the pass through tax, both Ameren and Staff agree that the lead is zero;

Payment lead – the average number of days between the date that AIU is billed for the pass through taxes and the AIU issue a check; and

Bank float lead – the average number of days between the date that AIU mails a check to the government and the date that the cash leaves the AIU's bank account. (Ameren Ex. 5.0, p. 19)

As an example, the table below compares the expense lag for Energy Assistance pass through taxes proposed by Staff and Ameren:

Expense Lead for Pass-Through Taxes	**Per Staff**	**Per Company** **(Ameren Ex 5.0, pp. 20-21)**
Service Lead	0.00	0.00
Payment Lead	34.87	34.87
Bank Float Lead	7.92	7.92
Total Expense Lead	42.79 Days	42.79 Days

Using the same logic, and contrary to the assertions made by Ameren witness Adams (Ameren Ex. 5.0, pp. 20-22), the expense lags for other pass through taxes proposed by Staff and Ameren would be: 48.199 for ICC Gas Revenue Tax, (22.581) for Public Utility Tax, and (30.415) for Municipal Utility Tax and Federal Excise Tax.

Ameren's proposal, if approved, would allow Ameren to earn a return on ratepayer supplied funds (*i.e*., pass-through taxes collected from customers). Ameren should only earn a return on investor supplied funds. Staff's proposal should be approved because it does not allow Ameren to earn a return on ratepayer supplied funds. (Staff IB, p. 69) Therefore, the Commission should apply zero revenue lag days to pass-through tax revenue and expense lead days as presented above to pass-through taxes in the CWC calculations.

d. Expense Levels to which CWC Factors are Applied

The Commission should use the expense levels, adjusted as necessary based on the final revenue requirement approved in this case by the Commission, to derive the final CWC requirements for each AIU.

5. Underground Storage Field Physical Losses and Performance Variations

a. Appropriate Categorization of Ameren's Underground Storage Field Inventory Adjustments

Ameren's explanation of its rationale for accounting for all gas losses in Account 823 instead of Account 352.3 is inconsistent and illogical. Ameren states that Account 352.3 refers to gas *in* the reservoir, so it is not an appropriate account in which to record lost gas. The AIU then claim that the gas described by Staff witness Anderson as a performance variation is not in the field reservoir and, thus, is lost. (Ameren IB, p. 219) However, Ameren states that it has not been able to identify a method whereby one could quantify the difference between various physical losses and losses of working inventory to non-recoverable base gas as a result of normal operations. (*Id.,* p. 222) In short, Ameren's basis for classifying all of its storage field losses to Account 823 is its claim that the gas is lost to the field reservoir; however, Ameren also readily concedes that it has or is unaware of any methodology to quantify what components of performance variations are lost gas and what might migrate to non-recoverable base; in other words, Ameren's statements are inconsistent with its preferred accounting methodology.

Staff witness Anderson has discussed at length that performance variations are primarily the result of the migration of working inventory to non-recoverable base gas, or gas that remains in the reservoir. Mr. Anderson has also noted that Ameren makes annual storage field inventory adjustments that reduce cumulative losses from inaccurate metering, small gas losses, and clerical errors, which in a well-maintained storage field operation should already be minimal. (Staff IB, pp. 70-77) In addition, Ameren claims that it has made improvements in storage field metering to provide a higher level of measurement performance at its storage fields, which should further reduce any losses or gains[1] from inaccurate metering. (Ameren IB, p. 103) Finally, Ameren failed to present any evidence to refute Staff witness Anderson's contention that in a well-managed storage field the majority of performance variations are due to the migration of working inventory to non-recoverable base gas.

Ameren takes issue with Mr. Anderson's use of the term performance variation claiming that this proceeding is the first time it has been confronted with this concept. (Ameren IB, p. 222) However, Ameren witness Underwood admitted that some of the performance variation gas could migrate to base gas. Mr. Underwood then admitted that Mr. Anderson's description of how Ameren determines the need for additional gas injections (performance variations) is consistent with Ameren's methodology for identifying gas losses. (Ameren Ex. 53.0 (Rev.), p. 22) Mr. Underwood is therefore conceding that Ameren's methodology for determining gas losses is consistent with the manner in which Mr. Anderson describes performance variations. Apparently, Ameren takes issue with the term performance variation because it prefers to consider all gas that is lost to support its position that all lost gas should be expensed and placed in Account 823.

b. Appropriate Accounting Treatment for Ameren's Underground Storage Field Inventory Adjustments

In its efforts to justify recording all storage field adjustments to expense Account 823, Ameren's arguments throughout this proceeding have contained numerous inconsistencies and inaccuracies. All of these have already been previously addressed by Staff and do not need to be repeated here. However, in its Initial Brief, Ameren

[1] Ameren witness Underwood agreed that metering accuracy has a +/- range. (Stipulation, June 13, 2008, p. 2)

added two more inaccurate representations.

First, Ameren states, "In fact, even what Mr. Anderson would call migration to non-recoverable base gas can be recorded in Account 823, as it represents gas "unaccounted for in underground storage operations due to…other causes". (Ameren IB, p. 219) This statement is ludicrous in light of the existence of Account 352.3 and accounting theory. (Staff Ex. 2.0, pp. 10-11) If all storage adjustments, regardless of nature, could be properly recorded to Account 823, there would be no need for Account 352.3 to have ever been included in the Chart of Accounts. Obviously this is not the case. The reason why both Account 352.3 and Account 823 are necessary is to recognize the accounting difference between capital and expense items. In this case, Account 352.3 is a capital account and Account 823 is an expense account. Non-recoverable base gas is a capital cost (much like the foundation costs of a building). Thus, it would be a violation of accounting theory to charge such costs to an expense account as Ameren advocated in its Initial Brief.

Throughout this entire issue, Ameren has put the cart before the horse. The AIU have continuously referred to the description of Account 823 in an attempt to justify their position that all storage adjustments should be charged to Account 823. The fact is Account 823 and Account 352.3 do not determine the proper accounting treatment of a transaction. They exist, as do all accounts in the Chart of Accounts, only to provide a means to differentiate between costs in the accounts and records. (83 Ill. Adm. Code 505, Uniform System of Accounts for Gas Utilities) Accounting theory and concepts determine the proper accounting treatment (in this case between capital and expense). This is accomplished by an analysis of the physical transaction to determine its nature.

Only after this is determined does the Chart of Accounts get addressed. (Staff Ex. 2.0, pp. 8-9) Simply put, the analysis determines the proper account not the other way around.

Second, Ameren states “At the time of the last rate case, however, these costs were not included in the base rates and therefore have not been collected”. (Ameren IB, p. 225) This is referring to AmerenCILCO’s storage field adjustments. To say that these costs have not been collected is a gross misstatement and illustrates Ameren’s lack of understanding of this whole issue. The costs referred to here have all been completely recovered through CILCO’s PGA. (Staff Ex. 14.0, pp. 40-41) Of course they were not included in the base rates in CILCO’s last rate case. To have done so would have resulted in double recovery (first through base rates and then again in the PGA).

Ameren also points out that the CILCO’s 2005-2007 PGA reconciliations are still pending a final Commission Order. (Ameren IB, p. 225) This is technically true. However, CILCO has already recovered the costs for these years as well and would only have to return any amounts it collected for costs that may be deemed imprudent. (83 Ill. Adm. Code 525.70(b)) Such an imprudence finding would still make Ameren’s reclassification argument moot since any costs found to be imprudent would not be allowed to be recovered through base rates either.

In summary, the issue here is simply: the most appropriate accounting treatment for recording performance variation adjustments. Staff’s position, based on Mr. Anderson’s testimony, is that performance variation adjustments consist largely of working gas that has migrated to non-recoverable base gas and thus should be treated as capital costs and recorded in Account 352.3. Ameren’s position is that the majority of the performance variation adjustments are due to gas that has physically left the storage field and thus should be treated as an expense and recorded in Account 823.

During the course of this proceeding, both Staff and Ameren have recognized the following facts concerning performance variations: (1) they cannot be attributed to a specific incident or cause, (Staff Ex. 8.0, p. 13; Ameren Ex 53.0 (Rev), p. 25), (2) they can consist of both physical losses and gas that has migrated to non-recoverable base gas (Staff Ex. 8.0, pp. 7-8; Ameren Ex 53.0 (Rev.), p. 23), and (3) there is no method for allocating them between physical losses and migrating gas (Staff Ex. 14.0, p. 38; Ameren Ex. 53.0 (Rev.), pp. 22-23). This third fact means that the total amounts of performance variation adjustments must be charged entirely to one account, either Account 352.3 or Account 823. The costs cannot be allocated even though they might contain elements of both physical losses and non-recoverable base gas. This being the case, neither account will be the perfect fit. The goal then must be to use the account that most accurately reflects the true nature of the performance variations. Staff contends that this is Account 352.3 based on Mr. Anderson's arguments that: (1) the majority of performance variations are the result of gas that has migrated to non-recoverable base gas, (2) Ameren makes annual storage field inventory adjustments that reduce cumulative losses from inaccurate metering, small gas losses, and clerical errors, which in a well-maintained storage field operation should already be minimal, and (3) Ameren has failed to show that the gas losses associated with performance variations have physically left the storage fields.

6. Working Capital Allowance for Gas in Storage for all AIU Gas Utilities

a. Accounts Payable Percentage

b. Allowance for Gas in Storage

Ameren argues that Ameren witness Glaeser's surrebuttal position wherein he revised the weighted average cost of gas ("WACOG") for the storage working gas inventory adequately addresses Staff witness Lounsberry's concern that Ameren failed to account for the fact that it price hedges a portion of its storage injections. (Ameren IB, pp. 97-98) Mr. Glaeser then used this revised WACOG to determine a new gas storage working capital allowance for each Ameren gas utility. (*Id.*, p. 98)

Staff disagrees with Ameren's use of this revised WACOG. As explained in Staff's Initial Brief, Ameren's attempt to use gas prices that are not known and measureable is not allowed by the Commission's rules. (Staff IB, pp. 85-86) Mr. Glaeser's position places reliance on future prices that are not known and measureable and are therefore not allowable for pro forma adjustments. Specifically, Ameren admits that its latest gas price request makes use of the NYMEX forward strip as of April 24, 2008. (*Id.*) Staff's use of a normal 2008 year to calculate storage volumes cannot be equated with Ameren's reliance on future prices. Staff normalized the storage volumes because of known and measurable changes to storage and a non-representative test year. This methodology has been accepted by the Commission in previous rate cases. (Staff IB, pp. 82-84)

7. Hillsboro Base Gas Inventory Valuation (Old)

As explained in Staff's Initial Brief, Ameren's request to reverse the conclusion reach by the Commission in IP's last rate case, Docket No. 04-0476 and to allow IP to increase the value of its Hillsboro storage field's base gas inventory by $10,367,838 in the instant proceeding should be denied. (Staff IB, pp. 88-92) Ameren argues that Staff witness Lounsberry's discussion of historical concerns at the Hillsboro storage field was an attempt to suggest that the problems that Staff raised in Docket No. 04-0476 persist. (Ameren IB, p. 103) This misconstrues Mr. Lounsberry's testimony. Mr. Lounsberry's discussion on this topic was provided in relation to IP's request, in this proceeding, for a revaluation of its Hillsboro base gas inventory. (See II. C. 8., *infra*) This discussion is not related to the Hillsboro base gas valuation that was at question in IP's prior rate case, Docket No. 04-0476. The discussion was predicated on IP's claim, in relation to the new request for a Hillsboro base gas inventory valuation, that the Hillsboro storage field experienced a valve leak that started in 2000, and therefore this information was relevant in the instant proceeding. (Staff Ex. 21.0, pp. 52-53)

Ameren provides details regarding significant organizational changes as well as improvements that have been made at its storage fields. (Ameren IB, pp. 103-104) While Staff does not dispute these organizational changes have occurred or that Ameren made the various improvements at its storage fields, Staff fails to see how this relates to the issue at hand or how this information would cause a reversal of a prior Commission Order. Staff's position is fully explained in Staff's Initial Brief. (Staff IB, pp. 88-91)

8. Hillsboro Base Gas Inventory Valuation (New)

As explained in Staff's Initial Brief, Ameren's request to increase the value of its Hillsboro storage field's base gas inventory by $2,841,000 should be denied. (Staff IB, pp. 92-111) Ameren argues that it is not required to use any particular type of study to demonstrate prudence and that no one has challenged the two forms of input data that

IP is using the support measurement error correction, namely pressure and inventory. (Ameren IB, pp. 108-109) Ameren then indicates that, contrary to Staff's concern that it could have used superior methodologies, it used valid reservoir engineering techniques to determine gas loss. (*Id.*, p. 109)

Staff disagrees. Staff has not directed IP to make use of any specific type of analysis to support its adjustments. Staff witness Lounsberry did point out that IP had used in its prior rate case, Docket No. 04-0476, a reservoir simulator model that its witness from that proceeding indicated was superior to any static method of predicting reservoir behavior. Mr. Lounsberry also expressed concern that given the time and money spent on developing this model he would have expected IP to make use of it had it been available. (Staff Ex. 21.0, pp. 28-29) Contrary to Ameren's claims, this is not a directive from Staff to make use of a specific analysis. Instead, Staff's review indicated that IP's analysis failed to support its request and Ameren's attempt to play the reservoir analysis shell game cannot alter that basic fact.

Staff does not agree that the reservoir engineering techniques it used were valid under IP's current circumstances. Staff witness Lounsberry noted that one of the primary means that a utility has to oversee the operation of its storage field involves comparing the field's inventory to the pressure of the gas in the field. However, IP' s failure to operate the Hillsboro storage field with a constant inventory volume since the field was expanded in 1993 causes a situation where the use of normal oversight practices is not reliable. This concern is also shared by IP. IP provided Staff with a November 20, 2006 report that noted that it had, in September 2004, just completed a 2.2 Bcf addition to Hillsboro's inventory that completed IP's three year replacement

(2003-2005) of the 5.8 Bcf inventory shortfall that IP found at the Hillsboro storage field in 2003. This report then indicated that as a result of replacing the 5.8 Bcf of inventory over the prior three years the hysteresis curve[2] is not stable enough to aid in determining a gas loss correction. IP personnel estimated that after three years of cycling the reservoir at a constant working gas volume, the reservoir would stabilize and the hysteresis curve will be helpful in quantifying gas loss volumes. (Staff Ex. 9.0R, p. 33)

Ameren admitted that the reservoir simulator or hysteresis curves (that rely upon pressure and inventory) are not viable at Hillsboro at this point in time. (Ameren IB. p. 109) The only other technique that Ameren mentioned for evaluating the field was its Tek Methodology. However, Staff's Initial Brief discusses why the Tek Methodology that IP attempted to employ is inappropriate. (Staff IB, pp. 192-194)

Ameren witness Underwood claimed the primary basis for IP's 1.1 Bcf adjustment (associated with the "New" Hillsboro Base Gas Inventory Valuation) was done by comparing meters running in series. (Ameren Ex. 53.0, p. 11) Mr. Underwood only made that statement after Staff noted the contradictory nature of his statement that there was insufficient information available to form a reliable conclusion as to whether any further adjustments to the original 5.8 Bcf inventory correction at Hillsboro was necessary (Ameren Ex. 29.0 (Rev.), p. 13) when considered with his claim that IP had valid support for the addition of 1.1 Bcf of gas to Hillsboro. (Staff Ex. 21.0, p. 40)

[2] A hysteresis curve is a plot or graph of the gas pressure in the storage field versus the field inventory. A hysteresis loop refers to resulting shape on the graph from plotting one year of data. Multiple years of data on the same graph provide multiple loops. A hysteresis curve can be used to track the performance of a storage field, which in turn provides a means to verify the inventory within the field. This information can also allow for interpretations of gas migration, seepage and bubble growth. In short, hysteresis curves allow entities to monitor their underground storage reservoir's performance. (Staff Ex. 9.0R, pp. 33)

IP's claim that it has "valid reservoir engineering techniques" to support its requested 1.1 Bcf increase to the Hillsboro storage field base gas inventory is not consistent with its own statement that it placed the primary basis for the calculation on the metering comparison and it has insufficient information to make adjustments to its original 5.8 Bcf inventory correction at Hillsboro. Further, Staff's Initial Brief fully discusses the problems associated with Ameren's reliance on the metering comparison. (Staff IB, pp. 92-106) In short, IP has no valid data to place reliance upon in making its request, which also means that IP's cannot demonstrate the just and reasonableness of its revaluation of the Hillsboro base gas inventory.

Ameren also misconstrues Staff witness Lounsberry's statement that IP should have discovered the valve leak prior to 2007, given the focus on issues at Hillsboro in 2004. (Ameren IB, p. 117) Mr. Lounsberry did testify that IP should have found the leak prior to 2007; however, Mr. Lounsberry's statement noted that IP during the late 1990s through 2004 was reviewing why its Hillsboro storage field was experiencing deliverability problems including review of the field's measurement. Mr. Lounsberry's point was that if IP truly had a leaking valve in 2000, then IP's failure to review or discover that problem at that time is a reflection on how IP operated its storage fields during that time period. (Staff Ex. 21.0, pp. 52-53)

9. Other

D. Recommended Rate Base

1. Electric

Based on the rate bases for the electric utilities originally proposed by CILCO, CIPS, and IP and Staff's proposed adjustments to those rate bases as summarized in Staff's Initial Brief and further supported herein, the electric utility rate base proposed by Staff for CILCO is $228,980,000, for CIPS is $440,636,000, and for IP is $1,234,032,000. (Staff IB, p. 112)

2. Gas

Based on the rate bases for the gas utilities originally proposed by CILCO, CIPS, and IP and Staff's proposed adjustments to those rate bases as summarized in Staff's Initial Brief and further supported herein, the gas utility rate base proposed by Staff for CILCO is $171,354,000, for CIPS is $175,352,000, and for IP is $475,825,000. (*Id.*, pp. 112-113)

III. OPERATING REVENUES AND EXPENSES

A. Introduction

B. Resolved Issues

1. Annualized Labor and Pro Forma Wage Increases

2. Injuries and Damages Expense

3. Employee Benefits Expense

4. Reliability Audit

5. Storm Costs

6. Interest on Customer Deposits

7. Accounts 856, 863, 874, and 887

8. Advertising Expense

9. Industry Association Dues Expense

10. Vegetation Management/Tree Trimming

11. MISO Expenses

12. Retired Production Worker Pension and Medical

13. Test Year NESC Violation Correction Costs

C. Contested Issues

1. AMS Charges

The AIU present a number of arguments in their Initial Brief that seek to justify their proposed levels of AMS costs for the test year, but in the end they fail to substantiate the reasonableness of their proposed charges. These flawed arguments in combination with the evidence presented by Staff provide compelling reasons for accepting Staff's proposed $48.3 million adjustment of AMS costs.

The AIU begin their discussion with a review of how AMS charges are incurred and charged to Ameren affiliates. The starting point, they argue, is the General Services Agreement ("GSA") which, the Companies note, has been approved by the Commission and the SEC. (Ameren IB, p. 127) After describing the mechanics of the GSA, Ameren acknowledges that the Commission's approval of the GSA "does not guarantee approval of the specific costs". Nevertheless, the AIU argue that is logical to assume the Commission expects the allocation of AMS costs to be consistent with the GSA.

(Ameren IB, p. 128) The Initial Brief then goes on to complain that it would be fundamentally unfair for the AIU to be mandated to pay AMS one price based on a formula in the GSA and then have the recovery from ratepayers be determined by "an untried, unknown, invented allocation methodology" (i.e. Staff's proposed approach). (Ameren IB, p. 129)

The Companies' arguments concerning the importance of the GSA are flawed in a number of respects. First, as previously noted, the Commission itself has stated that the GSA is not binding on the ratemaking process. (Order on Rehearing, Docket Nos. 06-0070/06-0071/06-0072 (Cons.), p. 28, May 16, 2007) Thus, the absence of non-fuel O&M from the GSA does not disqualify its use for ratemaking in this case. (Staff Ex. 18.0, p. 23)

Second, the Companies themselves do not consistently adhere to the GSA in the disposition of AMS costs. For example, they employ allocators for Service Requests ("SRs") that are not explicitly identified in the GSA. Mr. Nelson admitted that at least one allocator employed by the Ameren Illinois Utilities was not listed in the GSA (Tr., pp. 114-115, June 9, 2008) When asked whether that allocator should be prohibited from use in the ratemaking process, Mr. Nelson replied, "I don't know the answer to that question." (*Id.*) He also indicated a lack of knowledge about whether the Companies employ other allocators which are not included in the GSA. (*Id.*, p. 117) Mr. Nelson was further asked whether he was aware of any provision in the GSA that would prevent the use of an indirect allocator entitled Indirect Function Non-Fuel O&M. His answer was "I just don't know". (*Id*, p. 116) Mr. Adams, as previously discussed stated he did not rely upon the GSA when reviewing the SRs for his analysis (Ameren Ex. 5.14, App. 6)

Based on these responses, it is inconsistent for the Companies to criticize Staff's use of an allocator that is not contained in the GSA.

Ameren also does not consistently adhere to the GSA in the review process for Service Requests. For example, Mr. Adams admitted that he failed to follow the GSA in reviewing the individual Service Requests to determine whether the proper allocator was being used for the department performing the work. (*Id*.) Furthermore, he acknowledged the list of departments in the GSA was not used to determine what the allocation factor should be. (*Id.*, p. 276)

Underlying the Companies' position on this issue is an apparent belief they are entitled to recover any costs passed along to ratepayers under the aegis of the GSA. However, the proceeding amply demonstrated that many of the Companies' allocators that comply with the GSA still conflict with basic cost principles when applied to individual service requests. As Mr. Adams acknowledged in his cross-examination, the allocation process is replete with errors and omissions. The failures of both the AIU or Mr. Adams' consulting firm to identify and correct these shortcomings testifies to the lack of meaningful oversight or review of the AMS cost allocation process. These simple and obvious errors raise fundamental questions about the AMS allocation process in its entirety. If the Companies fail to follow basic cost-causation principles for some costs, it would be presumptuous indeed to claim that all remaining cost allocations adhere to the highest standards. There is no evidence on the record to demonstrate that these problems are contained.

The Companies then present a lengthy explanation of the review of AMS charges conducted by Mr. Adams' firm. They state that "Concentric employed a cost causation standard to assess the reasonableness of the allocated costs". The Initial Brief goes on to discuss all the steps that Concentric took to assess the reasonableness of AMS costs and then concludes accordingly:

> In sum, the Ameren Illinois Utilities have complied with the Commission's directive in the last proceeding and have submitted substantial evidence demonstrating that their A&G costs in general, and AMS charges in particular, are reasonable, consistent with those incurred by comparable entities in the market, and should be approved as proposed. (Ameren IB, p. 133)

This conclusion diverges from reality. In fact, the evidence shows that many of the AMS cost allocations are unreasonable. After receiving assurances from Mr. Adams about the depth and quality of his review of AMS costs (Tr., p. 261-267, June 9, 2008), his cross-examination indicated that he failed to identify and correct numerous errors and omissions in the allocation process. The shortcomings of the allocation process and subsequent review are fully discussed in Staff's Initial Brief (pp. 124-129).

The Companies then devote considerable time and effort to undermine Staff's adjustment to those AMS costs. They begin their argument by criticizing Staff for arguing that the focus should be on the end result, rather than the process. The AIU argue that cost causation principles pertain to the "allocation of costs". (Ameren IB, p. 134) This is an argument the Companies cannot win because the evidence demonstrates that both the process and results are deficient. As previously noted and acknowledged by Mr. Adams himself, the Companies did a poor job allocating AMS costs to the Ameren affiliates. In terms of results, these allocations produced a disproportionate share of AMS costs for the AIU that has not been justified in this proceeding.

The Companies try to turn the tables by arguing that Staff's adjustment rests upon an untried and untested allocation methodology. (Ameren IB, p. 134) This argument is flawed as well. Staff's approach reflects the application of sound, common-sense principles to the evaluation of AMS costs for the AIU. Staff sought to ensure that captive AIU customers did not receive an unreasonable allocation of AMS costs to bolster the bottom lines of Ameren's unregulated affiliates. So, given the Companies' failure to justify their disproportionate allocation, Staff reasonably concluded that their allocation should be proportionate to their size within the Ameren Corporation. Then, the allocator which causes the Companies great consternation is a simple average of three measures of the size of the AIU relative to other Ameren affiliates. That is an eminently reasonable conclusion given the Companies' failure to demonstrate why the AIU should receive a disproportionate share of these costs.

The Companies further contend that the relative size of the AIU is an inappropriate measure for gauging the reasonableness of their AMS costs allocations. (Ameren IB, p. 135) The problem is the Companies fail to identify a viable alternative measure for assessing whether the share of AMS costs they receive is reasonable. Their argument that the levels are justified because the allocation process is reasonable dissolved when that process was found to be flawed. Thus, the AIU are left with no tangible criteria on which to claim that their AMS cost allocations are reasonable.

The one concrete example the Companies present to support their proposed allocation of AMS costs is provided by Mr. Nelson who asserts that some 565 AMS personnel perform tasks solely for the AIU. According to the AIU, Staff's proposed approach would inappropriately allocate costs for these employees to all Ameren affiliates and thereby conflict with cost causation principles. (Ameren IB, pp. 135-136)

The Companies' discussion of the 565 employees is emblematic of the lack of transparency they present concerning AMS costs. Their initial discussion of the issue consisted of a one sentence statement in Mr. Nelson's rebuttal testimony that the Companies "have determined that over 500 AMS personnel perform functions solely for the Ameren Illinois Utilities and not for any other Ameren affiliate." There is no mention of these employees in the Companies' Initial Filing. (Staff Ex. 18.0, pp. 7-8) Mr. Nelson also fails to explain how it was determined that these 500 AMS employees function solely for the Ameren Illinois Utilities. Nor does he explain what these employees do on the Companies' behalf. When asked where on the record the Companies provide the specifics of what those employees do, Mr. Nelson could only reference a supplemental response to a Staff data request. (Tr., pp. 18-19, June 9, 2008)

It is also not clear why these 500+ employees perform services for the Ameren Illinois Utilities but not for Ameren's other regulated utility, AmerenUE in Missouri. If economies of scale are to be realized from having these employees work for more than one regulated utility, they should provide services to four regulated utilities, rather than three. The lack of discussion by the Ameren Illinois Utilities of this issue makes it difficult to determine whether these AMS employees are efficiently deployed. (Staff Ex. 18.0, pp. 8-9)

The Companies also focus on Staff's use of a number of employees allocator for AMS costs. They argue that Staff's proposed use of the number of employees to allocate AMS costs is inappropriate "because the number of employees has little to do with the nature of most of the services being allocated." (Ameren IB, p. 138) They go on to contend that "there may be an inverse relationship between the number of employees and the need for services." To support this claim, the Companies contend that a utility with 5,000 employees "would require far more shared services in order to serve its customer base." (*Id.*)

This argument amounts to an unsupported assertion on the Companies' part. In fact, the number of employees is a reasonable measure of a firm's size. It should also be noted that the AIU's percentage of Ameren employees is virtually identical to its share of Ameren assets and non-fuel O&M. (Staff Ex. 18.0, Schedule 18.02, p. 1 of 2) The fact that these three measures agree so closely suggests that they do, in fact, accurately reflect the relative size of the AIU within the Ameren Corporation. The Companies' discussion about employees is also problematic because the AIU have failed to present an accurate picture of what AMS employees actually do on behalf of Ameren affiliates. This lack of explanation makes it difficult to determine the extent to which AMS employees complement or substitute for other Ameren employees. The lack of evidence to support this discussion is, again, illustrative of the lack of transparency from the Companies throughout this proceeding concerning AMS costs.

The Companies then proceed to discuss the plan presented in Mr. Nelson's surrebuttal testimony to transfer these 565 employees to CILCO as of January 1, 2009. Their Initial Brief then goes on to argue that the transfer "will essentially wipe out Staff's adjustment." (Ameren IB, pp. 139-140)

There are a host of problems with this discussion. For one, waiting until surrebuttal to announce this employee transfer affords Staff insufficient time to evaluate the reasonableness of the proposed transfer. What impact this transfer would have on costs for AIU ratepayers and whether it would result in the efficient provision of utility services to ratepayers requires a considerably longer period of time to assess. Furthermore, the transfer date of January 1, 2009 falls two years beyond the end of the 2006 test year for this case. The Companies have failed to present any compelling arguments why a January 1, 2009 employee transfer should be allowed to adjust AIU expenses for a 2006 test year. This proposal would effectively undercut the Commission's test year rules.

The Companies argue that Staff's proposed adjustment inappropriately fails to distinguish between capitalized expenditures and other expenses pertaining to AMS. They thereby conclude that "[a]pproximately $55 million of capitalized expenditures are erroneously treated by Mr. Lazare as expensed dollars." (Ameren IB, p. 141) The implication of this argument is that Staff's approach unfairly disadvantages the Companies. However, the Companies have not sought inclusion of any capitalized AMS costs in rate base, and the Initial Brief fails to explain in any way how the AIU are harmed by Staff's approach. Thus, this concern can be safely dismissed.

The Companies go on to criticize Staff for "ignoring the allocation factors contained in the GSA". In fact, Staff has identified a number of examples where the Companies themselves have deviated from the GSA in the allocation process and in Mr. Adams' review of AMS costs. This inconsistent behavior on their part renders the Companies' argument on this issue irrelevant for all intents and purposes.

The Companies argue that Staff's proposed general allocation approach is inconsistent with the numerous direct assignments of AMS services to the AIU which account for approximately 30% of AMS charges they receive. (Ameren IB, p. 142) The Companies then proceed to argue why direct assignments should be considered appropriate for ratemaking and note the preference expressed by the Commission in the past for this approach. (Ameren IB, p. 143)

The Companies fail to understand that direct assignment cannot just be assumed to be a superior allocation methodology. Those direct assignments must be adequately supported to be accepted for ratemaking purposes. That is where the Companies' argument falls short; they have failed to provide the necessary support for all their directly assigned AMS costs. Instead, they identify a certain dollar amount associated with a directly assigned Service Request accompanied by a statement that those costs are assigned to one or more AIU. Thus, the supporting data for direct assignments as well as other cost allocations as presented in Exhibit 5.14 provides "virtually no explanation or argument supporting the proposed allocations of service requests." (Staff Ex. 18.0, p. 15) This lack of explanation or support makes it difficult to evaluate whether these direct assignments are reasonable.

Another problem is that the flaws that have been previously identified in the AMS cost allocation process indicate that all of the Companies' allocations, direct assignment or otherwise, cannot simply be assumed correct. Furthermore, proper consideration of direct assignments for the AIU requires an examination of direct assignments for other Ameren subsidiaries to ensure a fair and reasonable distribution of AMS costs to all concerned. The lack of information provided by the Companies concerning cost allocations to other Ameren subsidiaries impedes such a determination. (Staff Ex. 18.0, pp. 14-15)

Ameren's Initial Brief seeks to explain once again why the Companies only examined the reasonableness of A&G-related AMS costs and ignored AMS costs in other areas. One argument they present is that neither the Commission nor any other party expressed a concern about AMS costs beyond the A&G realm. Furthermore, the Companies contend that "an expanded study would not produce materially different results than the review of the A&G expenses". (Ameren IB, pp. 144-145)

Both of these arguments present problems. For one, it is logically inconsistent to only examine the A&G component of AMS costs when the Companies are also requesting recovery of non-A&G-related AMS charges. The Companies clearly have the responsibility to demonstrate these other AMS charges are reasonable as well. (Staff Ex. 6.0, p. 14) Second, the statement that an expanded study would produce similar results is not comforting considering that significant flaws were unearthed in the allocation of A&G-related AMS costs. The problems that exist in the allocation of A&G-related AMS costs raise concerns about the allocation of other AMS costs as well.

The Companies also seek to explain why their analysis focused solely on 411 Service Requests out of a total of 1,835 Service Requests for all Ameren affiliates. The Companies argue that a total of 411 Service Requests allocated A&G expenses to the AIU. Therefore, they were the focus of the Companies' analysis. The Companies go on to argue that the review omitted Service Requests which did not allocate any costs to the AIU because the Commission does not have any jurisdiction over those costs and any consequent review "would be fruitless". (Ameren IB, p. 145) Staff disagrees. In order to assess the reasonableness of AMS costs allocated to the AIU, it is necessary to fully understand how those costs were allocated to other Ameren affiliates. For example, if 30% of AMS costs for the AIU were directly assigned, it is essential to know what percentage was directly assigned to the other Ameren affiliates to determine whether direct assignments are applied in a consistent manner. And if they are not consistently applied, then the issue is whether the Companies have a reasonable explanation for this different approach. However, without full and complete information about the allocation of these common AMS costs to all affiliates, these issues cannot be addressed.

The Companies seek to respond to Staff's claims that "the appropriateness of how charges were made to the Service Requests does not appear to have been tested." (Ameren IB, p. 146) The Initial Brief goes on to identify the seven step process the Companies claim to have taken to assess the reasonableness of AMS costs.

Ameren's IB seeks to explain the cross-examination of Mr. Adams and begin the discussion by stating:

> Staff questioned the allocators used for a few SRs during the cross-examination of Mr. Adams. For the majority of the SRs about which Mr. Adams was questioned, the allocator used by AMS resulted in an allocation between the electric and gas businesses. There is no dispute that the charges were correctly incurred on behalf of the Ameren Illinois Utilities. Based upon the description of the SR, it appeared that an allocation to the electric business only may be an alternative allocator. (Ameren IB, p. 147)

This argument presents a number of problems. One concern is the Companies' claim that there is no dispute concerning the accuracy of the charges. In fact, the cross-examination process unearthed a number of questions concerning the accuracy of the charges associated with AMS Service Requests. For example, Mr. Adams was asked about a Service Request entitled "EE/Non-Technical-Administration-Allocator" (Ameren Ex. 5.14, App. 6, p. 85). The description indicated "This SR is for non-technical administrative work of a general miscellaneous nature which does not benefit any one particular Ameren affiliate. The work covered by this SR includes general meetings, community relations, time reporting, general training and staff development, industry committee work and general productivity related work." (*Id.*) When asked why none of these costs were allocated to Ameren Energy Generating, Mr. Adams contended "the work is primarily T&D-related". He went on to admit that "anyone reviewing this Service Request review would not be able to know that." (Tr. pp. 319-320, June 9, 2008)

For a Service Request entitled, "Oracle SW Implementation Expense" (Ameren Ex. 5.14, App. 6, p. 40), Mr. Adams admitted he has not provided any explanation here or anywhere else in his testimony concerning the purpose of this software even though the three Ameren Illinois utilities are allocated more than 52 percent of these costs. (Tr. pp. 305-306, June 9, 2008)

For a Service Request entitled, "Rent for Ameren Services Employees" which totals $10,186,716, Ameren witness Adams acknowledged there was no information on the record concerning the facilities for which rent was being charged or the amount of rent for each facility. (Tr., pp. 320-321, June 9, 2008; Ameren Ex. 5.14, App. 6, p. 1) Thus, the $10,186,716 figure cannot be verified which means that the share of this amount allocated to each of the AIU cannot be verified either.

For another Service Request pertaining to "Rent for Ameren Services Employees" totaling $21,211,856, the only support Mr. Adams could provide for that figure was the statement, "I am going to get back to the benchmark work that we discussed earlier that shows how A&G costs in total compare very favorably for the Ameren Illinois utilities to the other utilities, and the rent would be included in that." (Tr., pp. 322-323, June 9, 2008; Ameren Ex. 5.14, App. 6, p. 2) The lack of specific support for that figure calls into question the charges for each of the AIU.

For a Service Request of $2,683,531 of entitled, “Ameren Services Accrued Vacation Liability” which “records the increase or decrease in vacation liability for Ameren Services employees", Ameren witness Adams admitted there is no showing of how this liability was calculated. (Tr., pp. 298-299, June 9, 2008; Ameren Ex. 5.14, App. 6, p. 23) Thus, questions arise concerning the reasonableness of the amounts passed along to each Ameren affiliate.

For a Service Request totaling $1,929,970 entitled, “Asbestos Exposure Litigation”, which “tracks labor and expenses as related to third-party suits involving asbestos exposure at AmerenUE, AmerenCIPS, and Ameren generating sites” (Ameren Ex. 5.14, App. 6, p. 44) Mr. Adams was asked if he could “point to any evidence in the record that indicates why Ameren Energy Generating should receive none of these costs?” Mr. Adams claimed “that particular liability was retained by CIPS as opposed by the generation or the divestiture of the generation” after the merger with UE. However, he admitted there was no evidence on the record to support this claim. (Tr., pp. 307-308, June 9, 2008) Thus, the reasonableness of the charges to AmerenCIPS remains an issue.

For a project entitled, “Corporate Analysis Allocated – Electric”, Mr. Adams agreed that “there would be no way to determine what the components of the grand total $344,094 consists of based upon this Service Request review”. (Tr., pp. 311-312. June 9, 2008) Thus, questions arise concerning the allocation of this total to each Ameren affiliate.

For a Service Request of $644,689 entitled, "EE/Non-Technical-Administration-Allocator" which pertains to "non-technical administrative work of a general miscellaneous nature which does not benefit any one particular Ameren affiliate. The work covered by this SR includes general meetings, community relations, time reporting, general training and staff development, industry committees work, and general productivity work", Mr. Adams claim that none of these costs were allocated to Ameren Energy Generating "[b]ecause the work is primarily T&D-related electrical engineering work." (Tr., pp. 319-320, June 9, 2008; Ameren Ex. 5.14, App. 6, p. 85) However, he acknowledged "that anyone reviewing this Service Request review would not be able to know that". (*Id*.) Moreover, his claim that this work is primarily T&D-related electrical engineering work directly conflicts with the SR's description, "nontechnical administrative work…" As a result, the Companies have failed to establish the reasonableness of the allocations to each of the AIU.

It is also not clear what the Companies mean in their Initial Brief when they state that "an allocation to the electric business only may be an alternative allocator." Mr. Adams was more forthright when he said on the witness stand that he agreed that alternative allocators were more appropriate than the allocators Ameren used for a number of AMS costs. (See Staff's IB, pp. 124-129)

The Companies conclude this part of their discussion with a footnote which states "Allocator 002O, # of electric distribution customers (IL), was not an approved allocator in the GSA at the time that the SRs about which Mr. Adams was questioned were initiated. The electric only allocator was approved in the GSA effective February 23, 2007. The SRs about which Mr. Adams was cross-examined were initiated during the period January 1998 and February 2005." (Ameren IB, p. 147) This footnote which is unsupported and not tied to the record in any manner creates confusion about Mr. Adams' study (Ameren Ex. 5.14) which lists Allocator 002O alongside all other GSA allocators in the attached Appendix 5. The study fails to indicate that Mr. Adams did not consider Allocator 002O a viable allocator when he reviewed the reasonableness of the cost allocations for individual service reviews in the subsequent Appendix 6.

Furthermore, if the number of distribution customers was not an available allocator during the test year, then the Companies' Initial Brief is implying that the only alternative the GSA afforded them for certain electric-only costs is an allocation to both gas and electric customers. That implication would not speak well of the GSA as an accurate allocation tool.

Ameren goes on to state, "As Mr. Adams testified, the percentages allocated to each of the Ameren Illinois Utilities are not materially different whether it is allocated to just the electric business or to the electric and gas businesses." (Ameren IB, p. 147) They then present an attached Schedule A which purports to show that "the potential use of the suggested allocation methodology yields an over-allocation to the Ameren Illinois Utilities of a total of a mere $1,200 for all three of the Ameren Illinois Utilities". (*Id.*)

This argument is fundamentally flawed for a number of reasons. For one, the $1,200 figure fails to reflect a much larger misallocation between the AIU as represented in Schedule A, which was late-filed to be attached to the Companies' Initial Brief. For CILCO alone, the schedule shows an overallocation of $316,378. Furthermore, the schedule fails to indicate whether costs have been misallocated between the three electric and three gas utilities. If costs that should be allocated according to the number of electric customers have instead been allocated according to both electric and gas customers, then there is good reason to believe that each of the AIU gas companies were inappropriately allocated a share of the costs in question.

Furthermore, Schedule A presents an analysis for only a small fraction of the AMS cost allocations that have been called into question in this case. The schedule identifies Service Requests on pp. 18, 19, 25, 33, 100 and 114 of Appendix 6. However, Staff identified problems with a host of other AMS costs in that appendix.

Mr. Adams admitted that a Service Request for a project entitled "Labor/HR Services for Energy Delivery" (Ameren Ex. 5.14, App. 6, p. 32) should have been allocated based on employees rather than customers. (Tr., pp. 318-319, June 9, 2008) This error is not accounted for in Schedule A.

For a separate project referencing "Post-2006 Initiative" (Ameren Ex. 5.14, App. 6, p. 62), Mr. Adams initially agreed that the costs were for Ameren's electric utilities. (Tr., p. 309, June 9, 2008) Then he corrected himself and said he misspoke. Mr. Adams stated, "The allocation factor is what in this particular case is telling me it is electric and gas." (*Id*.) He insisted that an allocator, based on both electric and gas customers, is appropriate because he "spoke to people within Ameren Services that performed the work". (*Id*., p. 310) Nevertheless, the accompanying description indicates the Service Request "tracks expenses and labor in the post-2006 initiative process initiated by the ICC." (Ameren Ex. 5.14, App. 6, p. 62) It is common knowledge that the post-2006 initiative pertained to electric ratemaking after the expiration of the rate freeze on January 2, 2007. It is difficult to fathom why Mr. Adams believes the associated expenses bear any relationship to the gas side of the business. Staff considers this an unreasonable allocation not addressed by Schedule A.

For a Service Request identified with allocating “costs associated with public claims for UE and CIPS” (Ameren Ex. 5.14, App. 6, p. 176), Mr. Adams was asked to explain why costs were also allocated to IP and CILCO. He suggested the description in the Service Request may be wrong and further admitted, “there would be no way for anyone reviewing these Service Request reviews in this docket to know that the Service Requests had been updated and included other Ameren Illinois utilities”. (Tr. p. 302, June 8, 2008) Nevertheless, the reasonableness of the AMS charges associated with this Service Request that were passed along to CILCO and IP has yet to be established.

Mr. Adams was asked about a Service Request pertaining to a “senior vice president – customer service” (Ameren Ex. 5.14, App. 6, p. 122). This SR identifies AmerenUE and AmerenCIPS as the recipients of these services but nevertheless allocates the costs to AmerenCILCO and AmerenIP as well. Mr. Adams suggested that the description for this Service Request is incorrect. (Tr., pp. 317-318, June 9, 2008) Thus, for this Service Request as well, the reasonableness of the associated AMS charges that were passed along to CILCO and IP has yet to be established.

This Reply Brief has previously discussed a number of other Service Requests for which the Companies have failed to provide support for the total costs to be recovered from Ameren affiliates. To the extent the totals remain in question, the allocations to each Ameren affiliate including the AIU remain in doubt as well.

In sum, Ameren's Schedule A falls considerably short of explaining the host of errors and omissions in the Companies' Service Request allocation process. Thus, the only conclusion the Commission can reach is that the Companies' allocation process for AMS costs is fundamentally flawed. Under the circumstances, Staff's $48.3 million adjustment should be regarded as a conservatively low figure.

The Companies' Initial Brief presents a discussion seeking to explain why they failed to provide a market study for this proceeding as requested by the Commission. They begin their discussion by blaming the Commission because it "did not define what it meant by 'market costs'". (Ameren IB, p. 148) They then cast aspersions on Staff's statement that "A market study would examine the cost of receiving services from outside suppliers other than AMS." (*Id.*) The Companies claim the requisite data for such a study is not available, so the best alternative is to perform a benchmarking study and then call it a market study. (Ameren IB, pp. 148-149) From there, the Companies explain how the benchmarking study was conducted and what it purports to demonstrate. (Ameren IB, pp. 149-151)

This argument is illogical. The Companies object to Staff's statement that the study should examine the costs of receiving services from outside suppliers other than AMS. They state this type of analysis could not be done because data is not available without soliciting bids from service providers. (Ameren IB, p. 148) From there, the Companies suggest that the best way to study the market is to perform yet another benchmarking analysis. This argument is fundamentally flawed. Data collection issues have no bearing on whether Staff's understanding of what the Commission requested market study should entail is reasonable. (Staff Ex. 18.0, p. 36)

The Companies' claim about the difficulty of obtaining the data to conduct the kind of market study proposed by Staff is unpersuasive. Mr. Adams himself admits that the data could actually be collected by soliciting bids from outside firms but dismisses that as "a waste of time and money." (Ameren Ex. 21.0, p. 47) In Staff's estimation it would not be a waste of time and money at all. A market study would enable the Companies to determine whether they can purchase services in the marketplace for less than AMS charges. If they find that to be the case, the AIU could save ratepayers some money by purchasing the lower cost services from outside vendors. (Staff Ex. 18.0, p. 36) Thus the Companies' argument on this issue should be rejected.

2. Incentive Compensation Costs

Ameren downplays the financial goals of its current incentive compensation plans claiming that "although the 2006 plans do have a financial component, most of the plans' awards are paid out based on operational and individual performance." (Ameren IB, p. 155) However, the financial goals of the AIU are the *basis* for the funding of the incentive compensation plans; without meeting the financial goals, the funding would not exist for payouts regardless of the operational or individual performance. (Staff Ex. 1.0R, p. 8)

While Staff does acknowledge that a new plan will be in effect at the time rates set in these proceedings are in effect, there is no measurable evidence of the impact of that new plan. (Staff IB, pp. 154-155) Ameren cites to Illinois-American Water Company ("IAWC") Docket No. 02-0690 as a "similar circumstance" where the Commission accepted Staff's recommendation regarding a change in the incentive compensation plan. (Ameren IB, pp. 158-160) However, the IAWC case differs from the Ameren cases in two very important ways. First and foremost, the IAWC revenue requirements were based on future 2003 test years, while the Ameren dockets are 2006 historic test year revenue requirements. In addition, the "new" plan for the IAWC rate case was the 2003 incentive compensation plan, which coincided with the future test year and was appropriate for consideration. In the Ameren cases, the "new" plan is the 2008 incentive compensation plan, which is two years beyond the historic test year and has not been utilized, even now after the conclusion of the evidentiary hearings, for determination of incentive compensation awards.

Staff cited Docket No. 03-0403, a Consumers Illinois Water Company ("CIWC") rate case, wherein the Commission provides guidance with respect to the type of detailed evidence it expects utilities to provide of ratepayer benefit flowing from incentive compensation plans. (Staff Ex. 13.0 2R, p. 7) Ameren leans on its presentation of "the same type of evidence that CIWC provided in the Docket No. 03-0403 proceeding" (Ameren IB, p. 159), ignoring the directive made in that Order as to what is expected in *future cases* if the issue arises". (Staff Ex. 13.0 2R, p. 7)

IIEC witness Gorman proposes that 50% of Ameren's incentive compensation costs be allowed for recovery only if the Commission is not persuaded by the arguments by Staff and AG/CUB disallowing recovery of any incentive compensation costs. (IIEC IB, p. 8) His *belief* does not represent quantifiable evidence of ratepayer benefit the Commission expects as support for the recovery incentive compensation expense in base rates; therefore, his alternate proposal should be rejected.

Ameren claims it has a "long history of paying incentive awards and intends to continue this practice" (Ameren IB, p. 161) and states that "the suggestion that incentive compensation is 'discretionary' is not a basis to disallow the expense" (*Id*., p. 162). However, Ameren does not reveal that it has, at its own discretion, suspended paying incentive compensation awards as recently as 2003 when it suspended the Ameren Incentive Plan for contract employees. (Docket Nos. 06-0070/06-0071/06-0072 (Cons.), Staff Ex. 3.0, p. 19) All else being equal, net income is enhanced when a utility is allowed to recover an expense that has been provided for in rates but is not incurred. Once rates are set, the rates remain in effect until the next rate proceeding. If Ameren were allowed to include incentive compensation in its revenue requirement, ratepayers would provide funding (through rates) even if no cost were incurred by the Companies because plan goals were not met – or because the Companies decided to suspend the incentive plan. (Staff Ex. 1.0R, p. 10)

Accordingly, Staff continues to recommend that the Commission approve Staff's adjustment disallowing all incentive compensation costs included in Ameren's revenue requirements.

3. Rate Case Expense

a. Navigant/CEA Costs

Ameren appears to have based the Navigant, Concentric Costs section of its Initial Brief solely on Staff's testimony, ignoring statements made by its own witnesses at the evidentiary hearing.[3] Ameren claims Staff witness Ebrey "accepted all expenses invoiced by Navigant" (Ameren IB, p. 168); yet, during cross-examination, Ameren witness Wichmann agreed that only the expenses related to the Asset Separation Study had been accepted. (Tr., pp. 738-739, June 11, 2008; Staff Cross Exhibit Wichmann 1)

[3] Staff addresses the statements of Ameren's witnesses on pages 158-162 of its Initial Brief.

Ameren conveniently ignores four of the five reasons Staff took issue with the Navigant/CEA costs (Staff IB, p. 159), choosing only to discuss the transition costs incurred for Navigant after Ameren witness Adams changed firms. Ameren characterizes Staff's position as to these transition costs as simply "speculation" (Ameren IB, p. 168) and a "hypothesis" (*Id*., p. 169). Evidence provided to Staff proves that transition costs did in fact occur and, for the reasons set forth in Staff's testimony, should be disallowed. (Staff Ex. 13.0 2R, p. 16; Attachment A, p.1)

b. Gannett Fleming Costs

The AIU mischaracterize Staff's total post-filing support for Gannett Fleming as $42,000 for the entire post-filing period costs. In fact, Staff's rebuttal position allows an *additional* $42,000 over the $20,000 in invoices Staff had received in support of Gannett Fleming costs at the time of Staff's rebuttal testimony, for a total of $62,000 for post filing support. (Staff Ex. 13.0R, p. 22) The $25,000 invoice updates for March and April referenced by Ameren (Ameren IB, p. 165) were not provided to Staff until May 20, 2008, almost a full week after Staff filed its rebuttal testimony, its final opportunity to form its position. Staff did not fail to take those invoices into account; Staff clearly was not able to account for something it had never seen. Staff has allowed an additional $17,000 to cover costs for May through the end of the hearings that is in addition to the $45,000 in costs incurred from November through April that is supported by invoices. The estimate of additional costs that is not supported by actual invoices is a reasonable estimate and should be approved.

c. Energy Efficiency Witness

Nothing in the testimony of Mr. Hanser, Ameren's energy efficiency witness, was essential to explaining the Rider VBA proposal as the AIU claim. (Ameren IB, pp. 165-166) In fact, under cross-examination, Mr. Hanser agreed that a number of gas delivery utilities offer energy efficiency programs but have no decoupling riders. (Tr., p. 823, June 12, 2008) Thus, Ameren's argument that the cost associated with Mr. Hanser's testimony is justified in this proceeding is without merit. The Commission should disallow the cost of Mr. Hanser's testimony from rate case expense.

d. Attorney Fees

Ameren continues to argue that because it provided documents with numbers on them, they have supported the costs to be recovered in base rates. (Ameren IB, p. 164) The record in this case only includes costs incurred of $470,000 in questionable legal fees for rate case expense (Tr., pp. 744-745, June 11, 2008), not the approximately $670,000 claimed by Ameren. The costs are characterized as questionable since Staff did not receive sufficient detail to be able to analyze the costs until two days prior to the start of the evidentiary hearings. Such analysis led only to additional questions and concerns regarding the information finally provided, with no time left in the schedule for further investigation. (Staff IB, pp. 165-166) Since no investigation was possible of the costs in question, the Commission should not allow those costs to be recovered as rate case expense. The Commission should only allow the costs for attorney's fees that Ameren has properly supported.

4. Uncollectibles Expense

Ameren argues that Staff did not provide any justification for only modifying 2007 data, but not data for any other year in deriving a normalized average. (Ameren IB, p. 172) However, Ameren witness Stafford did not present other modifications that could be considered until surrebuttal testimony. (Tr., pp. 446-447, June 10, 2008) As such, Ameren's criticism of Staff's analysis of uncollectibles (Ameren IB, pp. 172-173) is baseless. While Staff could have considered information related to the street lighting conversion program or reimbursements Ameren received from other parties related to the Rate Relief Plan had it been provided prior to Ameren's surrebuttal testimony, the lateness of the information made that consideration impossible. Staff had no opportunity to evaluate whether the new arguments presented in Ameren's surrebuttal testimony had merit. Surrebuttal testimony was not the appropriate phase of the instant proceeding in which to present this information. As a result, the merit of this late information is unknown. Moreover, Ameren should not be rewarded for providing information it clearly had early in the proceeding so late that the parties were unable to analyze or consider it. The Commission should, therefore, approve Staff's position on uncollectibles.

5. Injuries and Damages Expense – IP

Ameren fails to address whether the 2005 payouts that Staff witness Ebrey removed from the normalized average for injuries and damages for IP Electric are "extreme and unusual". (Ameren IB, pp. 175-176) Ameren maintains that there are no "normal and expected accidents" and that all should be included within the calculation of an average. (*Id*., p. 175) Ameren has refused, however, to address that the magnitude of the dollars associated with Staff's proposed excluded payouts are many times greater than most other claims in the last five years. When asked about the magnitude of the claims at issue, Ameren witness Wichmann answered, "Off the top of my head, I don't recall the actual dollar amount of those claims. I know those were the largest ones in that year. But compared to other years, I don't know." (Tr., p. 751, June 11, 2008) When asked if he would agree that the claims at issue do not occur annually, he responded that he would not agree and that, "I think it's possible that they do agree [occur] annually. But, I'm not sure." (*Id.*)

One has to question the credibility of Ameren's witness. As can be seen by comparing the bolded 2005 payments in the table below, it is easy to discern that the type of payouts that Staff witness Ebrey removed from the calculation do not occur annually.

	Staff Ex 1.0 Schedule 1.11 IP-E Staff Proposal	**Ameren Ex 20.7 Ameren Rebuttal Proposal**
Year 2002 Payments	$ 7,558	$ 7,558
Year 2003 Payments	6,227	6,227
Year 2004 Payments	7,681	7,681
Year 2005 Payments	**2,654**	**16,179**
Year 2006 Payments	3,923	3,923
5 Year Average (total/5)	5,609	8,314
2006 Expense	6,830	6,830
Adj to 2006 Expense (Avg – Exp)	(1,221)	1,484
Electric distribution allocation	95.94%	95.94%
Proposed Adjustment (Adj * %)	$(1,172)	$ 1,424

The credibility of Ameren's witness should be further questioned not only because he did not have a copy of his revised rebuttal testimony with him on the witness stand (Tr., pp. 748-749, June 11, 2008) but also because, when shown his revised rebuttal testimony, he could not recall his intention for the change and indicated that there was an inconsistency in his revised rebuttal testimony. (*Id*., p. 750)

Staff maintains that it is necessary to apply sound and reasoned judgment to the payouts included in the normalization calculation and that it is appropriate to remove extreme and unusual payouts from the calculation. The Commission has agreed in its recent Order in Docket Nos. 07-0241/07-0242 (Cons.), wherein concern was expressed in the calculation of an injuries and damages amount that would be included in the test year when the results from a normalized average can be changed drastically when the expense level for any given year is considered. As the Commission stated:

> *It is always necessary, when gathering any periods of data, to further apply sound and reasoned judgment*. Here, we are not persuaded by the correctness of using 5 years of data for reasons that one of these years, i.e., 2002, is clearly and unmistakably different from the others. *Further, we perceive that something is inherently wrong in the selection when the results change so drastically when either 3 or 4 year data is considered*. So too, we are not convinced that Staff's normalization required the complex methodology that it applied especially when plain averaging has been utilized in past cases. And, we see that the use of averaging also would have produced different results. For all these reasons, and because we are not persuaded that normalization was ever required in this instance, we reject Staff's proposed adjustments.
>
> In the final analysis, the Commission finds that…North Shore appropriately used its unadjusted test year level. Peoples Gas appropriately used its test year level, adjusted for a highly unusual credit recorded in fiscal year 2006 relating to a major claim that occurred in fiscal year 2002.

(Order, Docket Nos. 07-0241/07-0242 (Cons.), February 5, 2008, p. 57) (Emphasis added)

Therefore, Staff continues to recommend that the Commission approve Staff's proposed adjustment to Injuries and Damages Expense for IP Electric that removes consideration of the extraordinary claims included in the 2005 payouts from the calculation of a normalized amount.

6. Energy Toolkit

Ameren claims the Energy Toolkit is an important resource for its customers. On the other hand, Ameren threatens to discontinue the program if it is not approved for recovery in base rates. (Ameren IB, p. 176) Clearly these statements prove that the Toolkit is not the vital resource for the provision of utility service if it can so easily be discontinued.

Ameren maintains the importance of the program by arguing that, “No other site allows customers to complete an individualized energy analysis audit based on the Ameren Illinois Utilities rates, metered usage, area weather, billing cycle data, changes to owned appliances and individual lifestyle.” (*Id*.) However, Staff disproved this when it discovered websites that offer the same type of analysis. (Staff IB, pp. 169-170; Tr., p. 801, June 11, 2008)

Ameren mischaracterizes Staff’s discussion regarding any measurable added value provided by the Energy Toolkit to its Illinois customers. The AmerenUE Energy Toolkit has been in operation since February 2004. It would seem reasonable that four years into the program, some impact would be seen for those customers who have had the Toolkit available to them. (Staff Ex. 13.0 2R, pp. 30-31) To the extent that the program has been successful in reducing energy usage in the AmerenUE territory, it would be reasonable to expand the program into other service areas. Likewise, if it had seen only limited success in the AmerenUE territory, expansion into other service areas would not be reasonable. While the program in Illinois may offer a greater scope of customer benefits than that employed by AmerenUE (Ameren IB, p. 179), without some measurement of the success, a decision to expand the program should not be considered.

Staff maintains that the Commission should adopt Staff's adjustment to disallow the cost of the Energy Toolkit because it is not reasonable to add a new unnecessary program to the cost of service for the already burdened Ameren Illinois Utilities' customers when the program has no measurable added value and the EEDR plan will be providing similar education and information on energy efficiency measures. (Staff IB, p. 170)

7. Collateral and Prepayments

One of the biggest flaws with Ameren's proposal to recover collateral and prepayments is the fact that these are simply "opportunity" costs and not actual out-of-pocket costs incurred by the utilities. This is illustrated by Ameren's explanation of how the costs are "estimated" (Ameren IB, p. 181) and further during cross-examination of Ameren witness Wichmann in his discussion of "out-of-pocket" costs. Specifically, Mr. Wichmann agrees that Ameren does not write a check to cover interest (carrying costs) related to prepayments. (Tr., pp. 736-737, June 11, 2008)

A second problem specific to the Companies' proposal is that Ameren admits the exposure will cease to exist when ratings return to investment grade levels. (Ameren IB, pp. 181-182) Yet, no provision is included in the proposal should the ratings return to investment grade levels and exposure cease to exist between rate case filings. Staff addressed this issue in testimony and further in its Initial Brief. (Staff IB, p. 173)

Ameren's Initial Brief summarizes Staff's position regarding collateral and prepayments incorrectly in one short paragraph. (Ameren IB, p. 184) That paragraph reflects statements made in Staff witness Ebrey's direct testimony, which was revised in her rebuttal testimony based on further information provided by the AIU. Staff's position is correctly set forth in its Initial Brief. (Staff IB, pp. 170-174)

8. Reliability Initiatives

Ameren incorrectly claims Staff proposed to disallow costs associated with reliability initiatives. (Ameren IB, p. 185) Staff's proposal is to disallow the Companies' pro forma adjustment based on the increase of the 2008 budget over 2006 actual costs. (Staff IB, p. 174) The actual 2006 level of costs for reliability initiatives has not been proposed for disallowance by Staff. Further, Ameren claims that Staff did not explain how Ameren witness Getz's examples of approval of budgeted amounts in rate cases fall short. (Ameren IB, pp. 185-186) Mr. Getz himself provided that explanation during cross-examination. (Staff IB, p. 175; Tr., p. 576, June 10, 2008)

Ameren also argues that since the broad scope of work to be performed has been identified, it is known and measurable. (Ameren IB, p. 186) Speaking about the Reliability Action Plan changes for 2007, Mr. Getz stated as follows:

> Q. Would it be a fair statement that most of the divisions had multiple changes to their reliability plans during November and December?
>
> A. Yes.
>
> Q. And in the right-hand column there, would you agree that the changes represent both increases and decreases to the budgets and actual costs associated with the projects?
>
> A. That's correct.

(Tr., pp. 593-594, June 10, 2008)

Similarly for 2008, the Reliability Action Plan will likewise experience changes:

> Q. And would it be reasonable to assume then that there will be changes to the 2008 reliability action plan throughout the year similar to the changes that Ameren experienced in the 2007 plans?

A. Yes.

(Tr., p. 596, June 10, 2008)

The evidence in this proceeding proves that the one certainty about Ameren's Reliability Action Plans is that they are moving targets that are constantly being modified and updated throughout the year. (Staff IB, pp. 175-178; Tr., pp. 589-596, June 10, 2008)

9. Public Utility Fund Base Maintenance Contribution

The AIU cite the current requirements of Section 2-203 of the Act, which requires certain Illinois electric utilities to pay their pro rata share of a $5.5 million assessment for the Public Utility Fund base maintenance contribution ("PUF BMC"). (Ameren IB, pp. 187-188) Section 2-203 of the Act concludes by stating that, "This Section is repealed on January 1, 2009." However, in this proceeding the AIU are proposing that they be allowed to recover approximately $1.6 million for their three electric utilities. Staff witness Ebrey opposed the recovery of the PUF BMC.

In opposition to Staff's PUF BMC adjustment, Ameren repeats two flawed arguments. First, Ameren argues that Staff's adjustment is a violation of the Commission's test year rules regarding pro forma adjustments to a historical test year that are *reasonably certain* to occur within 12 months of the filing date of tariffs. (*Id.*, pp. 187-188) (Emphasis added) Ameren further argues that since tariffs were filed on November 2, 2007, the time period for pro forma adjustments may be extended to November 2, 2008, and since Staff's adjustment relates to an expense that will not be affected until January 1, 2009, the adjustment is outside the pro forma adjustment period and is improper. (*Id*., p. 188)

Ameren fails disclose that 83 Ill. Adm. Code 287.40 addresses pro forma adjustments that may be proposed to a selected historical test year by *a utility company*. Section 287.40 was never intended to limit Staff's ability to make adjustments. Taken to an illogical conclusion, Ameren's proposal would require ratepayers to pay for a soon to be non-existent PUF BMC, and if collected, Ameren would have no obligation to remit the PUF BMC to the Illinois Department of Revenue. Ameren would lead the Commission and its ratepayers to believe that the recovery of an expired cost accomplishes the requirement that all rates or other charges be just and reasonable as required by Section 9-101 of the Act, 220 ILCS 5/9-101. Such a conclusion must be rejected by the Commission.

Second, Ameren argues that Staff's adjustment to remove the PUF BMC from recoverable expenses is prohibited single-issue ratemaking. Ameren further argues that by removing a single expense item beyond the pro forma adjustment period, Staff is inappropriately engaging in single-issue ratemaking. (*Id.*, pp. 188-189)

Ameren is misguided in its definition of single-issue ratemaking. Single-issue ratemaking would occur if the Commission would, in a separate and presumably subsequent proceeding, consider or revise a single revenue or expense item. *(Business and Professional People for the Public Interest v. Illinois Commerce Commission, 146 Ill. 2d. 175, 244, 585 N.E.2d 1032) (1991)* In the instant proceedings, Ameren is seeking a general increase in rates under Section 9-201 of the Act. (http://www.icc.illinois.gov/e-docket, accessed July 10, 2008) As such, a general increase in rates is intended to consider all components of the ratemaking formula (*i.e.*, revenues, expenses, rate base and rate of return). Therefore, Ameren's single-issue ratemaking argument is not applicable and also must be rejected by the Commission.

Based upon the current set of facts, the PUF BMC is set to expire on January 1, 2009. Since the proposed legislation (SB 1926) to extend PUF BMC to January 1, 2014 is held in House Committee, and the regular legislative session has been adjourned with only limited prospects of enactment in a Recall Session or the Fall Veto Session, it appears unlikely that such legislation will be enacted. (http://www.ilga.gov/legislation/Bill , accessed July 10, 2008) Therefore, it is appropriate that the Commission deny Ameren's proposed recovery of the PUF BMC.

10. Depreciation

a. Depreciable Life for Electric Distribution Equipment

The AIU disagree with the recommendation of Staff witness Greg Rockrohr that the AIU should utilize a common depreciable life for various types of electric distribution equipment. The AIU stated the reason different depreciable lives make sense is because the existing average life of the equipment at each of the AIU is different. (Ameren IB, pp. 190-191) The AIU explained that Mr. Rockrohr's suggestion may be appropriate in the future, but not at this time, since the AIU have only been affiliated since 2005. (*Id.*, p. 193)

Mr. Rockrohr explained that, looking forward, the service life of electric distribution equipment at each of the AIU will depend more upon the inspection and maintenance practices now in place than on the age of the existing equipment in the field. (Staff IB, p. 180) Mr. Rockrohr explained that electric meters are moved from utility to utility, for example: a meter is pulled from service at CIPS and placed in service at CILCO, or pulled from CILCO and placed in service at IP, etc. It makes no sense, therefore, for the three AIU to use different depreciation for the exact same meter. (Staff Ex. 10.0, p.15) Staff continues to recommend that the Commission require AIU to utilize a common depreciable life for electric distribution equipment utilized in an identical or nearly identical manner at all of the AIU. (Staff IB, p. 180; Staff Ex. 10.0, Attach. D, p. 4)

b. Net Salvage Method for Depreciation Expense

11. NESC Violation Correction Costs After the Test Year

In its Initial Brief, Ameren objected to Staff witness Greg Rockrohr's recommendation that the Commission shield ratepayers from the cost of correcting NESC violations that exist due to the utility's own improper initial construction. Ameren provided three reasons for its objection: Ameren claimed that the disallowance that Mr. Rockrohr recommended: (1) fails to find Ameren's prospective investments are imprudent; (2) is at odds with the goals and objectives of the Public Utilities Act; and (3) conflicts with the Commission's policy of encouraging the acquisition of financially troubled utilities. (Ameren IB, p. 206)

Ameren referred to Section 9-211 of the Act and complained that Mr. Rockrohr did not conduct the same type of prudence analysis when assessing the AIU's NESC corrections due to improper initial construction as he conducted for plant additions. (*Id.*) Section 9-211 of the Act provides as follows:

> The Commission, in any determination of rates or charges, shall include in a utility's rate base only the value of such investment which is both prudently incurred and used and useful in providing service to public utility customers.

Mr. Rockrohr explained in his testimony that if a utility did not construct its distribution facilities in compliance with the NESC, the utility must correct the NESC violations in order to maintain safety for the public and its employees. Mr. Rockrohr further explained that, since the utility has no choice but to correct the NESC violations, applying the same prudency test to Ameren's NESC corrections as he applied to utility plant addition investments, which the utilities chose to make, would not be a consistent application of Section 9-211 of the Act. (Staff Ex. 10.0, p. 19; Tr., pp. 1008-1009, June 12, 2008)

Ameren attempts to mislead the Commission by focusing its analysis on only the prospective costs for the NESC violation corrections without acknowledging that the affected facilities are already in rates. Ameren's cite to the Commission's Order in *Illinois Commerce Commission v. Commonwealth Edison Company*, Docket No. 84-0395, is misplaced. Since a utility must correct NESC violations in order to maintain safety for the public and its employees, there is no choice for the utility but to correct the violations. It would not make sense to apply a prudency test to correcting a deficiency when correcting the deficiencies is mandated and the distribution facilities should have been built properly in the first instance. Any prudency review would therefore be meaningless.

Ameren next discussed the General Assembly's objective to provide equity between consumers and investors, and states that Mr. Rockrohr's position is blatantly one-sided and inconsistent with the General Assembly's intent to treat investors fairly. (Ameren IB, pp. 209-210) Ameren references Section 5/1-102 of the Act, which is entitled "Findings and Intent" and sets forth the goals and objectives of utility regulation. The cases cited by Ameren in its Initial Brief fail to provide persuasive authority as to the substantive value of these statements of legislative goals. (Ameren IB, pp. 208-209) In the *Governor's* case, the court found that Section 1-102 of the Act mandates nothing regarding reliability and utility earnings. The court did not consider this section to be a substantive provision of the Act. *Governor's Office of Consumer Services v. Illinois Commerce Commission*, 162 Ill. Dec. 737, 220 Ill. App. 3d 68, 580 N.E.2d 920 (3rd Dist. 1991) Further, the *Monarch* case also described Section 1-102 of the Act as nothing more than prefatory language and of no substantive or positive legal force. *Monarch Gas Co. v. Illinois Commerce Commission*, 199 Ill. Dec. 269, 261 Ill. App. 3d. 94, 633 N.E.2d 1260 (5th Dist. 1994)

Further, Staff would argue that investors have been treated fairly. Staff points out that at the time of initial installation, rate payers paid each utility through rates to construct its distribution facilities in a manner that would comply with the NESC. Constructing the electric distribution facilities properly when the facilities were initially installed would have resulted in no tangible additional work or cost for the utility. (Staff Ex. 10.0, p. 20) Now, each of the AIU seeks to charge rate payers again to modify these existing distribution facilities to make them comply with the NESC. If this second charge to rate payers for the same facilities occurs, the rate payers would bear all the consequence of the utilities' initial construction costs and construction errors. The utility would also earn a return on the unnecessary additional costs it created by constructing the facilities improperly. (*Id.*, p. 22) Ameren asserts that it seeks to strike a balance between the interests of the ratepayer and the interests of the utilities (Ameren IB, p. 211), but then requests that the ratepayers bear all the costs for correcting the NESC violations. However, in the interest of equity and fairness to both rate payers and the utilities, Staff maintains its position that the utilities not bear the cost of correcting all

NESC violations, but instead that the utilities bear all the cost of correcting only those NESC violations that exist due to the utility's own improper initial construction. (Staff Ex. 22.0, p. 15) Staff's position is that ratepayers would bear the cost of correcting NESC violations that the utility did not cause through improper initial construction.

Ameren witness Ronald Pate stated Ameren believes (but is not certain) that the majority of NESC violations due to improper initial construction occurred prior to Ameren ownership. (Ameren Ex. 38.0, p. 3) Ameren Corporation was created in 1997 as part of a merger between Union Electric Company ("UE") and CIPS. In 2003, the Commission approved Ameren's acquisition of CILCO and in 2004 its acquisition of IP. In 2005, the Commission approved the transfer of UE's Illinois territory to CIPS. (Ameren IB, p. 203)

In response to the AIU's supposition that the NESC violations that exist due to improper construction were likely initially constructed by other entities, Staff pointed out that Ameren could have made itself aware of pre-existing NESC violations at CILCO and IP. (Staff IB, p. 181) During the summer of 2007, the first year Staff inspected distribution circuits for NESC violations related to down guys and overhead guys, Staff identified hundreds of locations on the AIU's distribution circuits where NESC violations existed. (Staff Ex. 10, p. 19) Ameren could have easily conducted similar inspections prior to acquisition. Regarding CIPS, since the merger of CIPS and UE was the catalyst for the formation of the Ameren Corporation as a holding company, NESC violations due to improper initial construction within the operating area of CIPS cannot reasonably be considered the fault of a prior owner. (Staff IB, p. 181)

Ameren characterized Staff's response to its claim that its NESC violations are the fault of other entities as a hindsight review of its due diligence when purchasing the utilities. (Ameren IB, p. 214) Ameren then speculated that since Staff did not discover the NESC violations involving down guys and overhead guys until 2007, those NESC violations must not have been readily discernible through a random inspection process. (Ameren IB, p. 216) Ameren's speculation is not accurate. Staff did not discover these violations until 2007 simply because Staff had not previously included these types of NESC violations as part of its inspections. In 2007, Staff discovered hundreds of NESC violations in the operating area of the AIU simply by driving by the locations and noting whether each down guy or overhead guy was properly insulated or grounded. (Staff Ex. 10.0, p. 19)

In its Initial Brief, Ameren goes to great length to explain its reorganization and merger with CILCO and IP and that it has fulfilled its obligations from these dockets. (Ameren IB, pp. 203-204) Ameren also contends that assuming responsibility for unknown past violations were not made a part of the conditions of approval. (Ameren IB, p. 204) Staff's recommendation is not a retroactive review of Ameren's due diligence or a collateral attack on the reorganization and merger dockets. There simply was no evidence that Ameren considered possible NESC requirements in its decision to acquire the utilities.

The fact is, if these unknown violations were brought to Ameren's attention for the first time by Staff, then it would have been impossible for the Commission to consider these violations and appropriate treatment thereof at the time of the acquisition dockets. Nevertheless, the fact the ICC did not consider these violations in the acquisition dockets does not suggest that it would therefore be unfair or inequitable to consider these violations now that they have been discovered and need to be corrected.

Ameren next argued that Mr. Rockrohr's recommended disallowance would discourage future investment in troubled utilities. (Ameren IB, p. 211) There is no evidence to support Ameren's claim. In fact, Staff doubts troubled utilities would exist if the Commission established that all costs associated with every business decision made by every utility were always born by ratepayers.

Ameren cites two dockets for the proposition that the Commission favors the acquisition of utilities in need of improvements. These dockets both involve water utilities and do not address the same fact pattern as is presented in this docket. The current proceeding involves a situation where the Company and Staff know that NESC violations exist and the utility has no choice but to correct the violations. The dockets referenced in Ameren's Initial Brief do not deal with a specific issue, such as NESC violations, but deal with the financial aspects of taking over a troubled utility.

Ameren has proposed a "compromise" whereby shareholders would cover the cost of correcting locations with single-arm cross arms: about 5% of the locations with NESC violations due to improper initial construction. Ratepayers would bear the cost for the remaining 95% of the locations. (Staff IB, pp. 181-182) This compromise position is disingenuous. Ameren claimed that the single-arm cross arm installations that it agreed to correct as a compromise were proper at the time they were installed, and even today not in violation of the NESC. (Ameren IB, p. 125) However, Mr. Rockrohr explained that while Ameren's single-arm cross arms installed at interstate crossings might be appropriately "grandfathered", double-cross arms have been required at railroad crossings much longer, and therefore could not be appropriately "grandfathered". (Staff Ex. 22.0, p. 16) The requirement for double arms at railroad crossings was in fact included as a requirement in the safety rules that became effective in the year 1916, called General Order 30. Staff believes Ameren's erroneous understanding regarding single-arm cross arms being proper at railroad crossings illustrates that Ameren has not made itself fully familiar with safety requirements, and might explain why Ameren did not itself recognize the magnitude of NESC violations on the AIU's distribution systems.

Finally, Ameren points out that Section 305.130 of 83 Illinois Administrative Code Part 305 ("Part 305") provides for exemptions from NESC requirements. (Ameren IB, p. 216) Section 305.130 provides as follows:

> If exemption from any of the requirements herein is desired in any particular case, the Commission will consider the application of a public utility for such exemption when accompanied by a full statement setting forth the conditions existing and the reasons why such exemption is desired. Exemptions will be governed by the same standards applicable to waivers and modifications in Section 305.40(a). It is understood that any exemption so granted shall apply only to the particular case covered by the application, and exemption shall not be extended to other cases unless specifically granted in the Commission's order.

Section 305.130 indicates that any utility's application for an exemption must include a full statement explaining the conditions and reasons it desires the exemption. Staff notes that no such statement was submitted by Ameren. Furthermore, the second sentence of Section 305.130 states that any exemption granted will be governed by the same standards applicable to waivers and modifications in Section 305.40(a). Section 305.40(a), in relevant part, provides:

> When the Commission waives or modifies these rules, it shall approve equivalent safety measures, including special working methods.

Staff interprets Part 305 to state that it is permissible for a utility to request an exemption to NESC rules, and that if the Commission grants such an exemption then the Commission must approve equivalent safety measures, including special working methods. (Tr., pp. 1005-1006, June 12, 2008) While the Commission has authority to grant an exemption to the Part 305, and therefore NESC rules governing down guys and overhead guys, by replacing the NESC rules with equivalent safety measures, Staff cannot envision a reason that the Commission would wish to do so. Regardless, hypothetically, if the Commission granted an exemption and established equivalent safety measures in lieu of the NESC, Ameren would still need to modify its facilities to comply with those equivalent safety measures that the Commission established. Ameren's argument regarding an exemption to Part 305 is moot and should be rejected.

In summary, Mr. Rockrohr's recommendation does not unfairly punish Ameren shareholders. His recommendation is made to attribute the costs to correct the violations to the party responsible. Allowing these NESC violation correction costs in rates would give a utility a second bite at the apple and would penalize the current rate payers for such deficiencies. It would not be fair for the ratepayers to bear all the consequences of the utility's construction errors when the ratepayers already bore the cost of the utility's initial construction. Staff's recommendation remains that the Commission order each of the AIU to account for its costs for correcting NESC violations that exist due to the utility's own improper initial construction, and order that those costs shall not be approved for inclusion in rates. (Staff Ex. 10.0, p. 22)

12. Underground Storage Field Physical Losses and Performance Variations

As explained *supra*, in II.C.5. and in Staff's Initial Brief (Staff IB, pp. 70-81, 183), Staff disagrees with the Companies' practice of expensing both physical losses and performance variations and accounting for each type as a recoverable gas loss recorded in Account 823.

13. Account 880 – IP

14. Account 830 – CILCO

15. Account 834 – CILCO

16. Account 823 – IP – Hillsboro

As explained in Staff's Initial Brief, IP's request to include an annual inventory adjustment of $1,439,000 for the Hillsboro storage field should be rejected primarily due to the fact that given the various historic problems IP has experienced at the field, IP cannot reliably make use of reservoir information to determine any needed adjustments to the field's inventory. (Staff IB, pp. 190-198) In response, Ameren made the same argument, that it is not required to use any particular type of study to demonstrate prudence and that it used sound engineering techniques to determine the appropriate gas loss adjustment for Hillsboro, that it used in support of its request for the Commission to reconsider its finding on the Hillsboro storage field's base gas inventory valuation in Docket No. 04-0476. (Ameren IB, p. 235) Staff's response is set out in Section II. C. 7, *supra*.

17. Other A&G

18. Other

D. Recommended Operating Income/Revenue Requirement

1. Electric

Based on the operating expense statements for the electric utilities originally proposed by CILCO, CIPS, and IP and Staff's proposed adjustments to operating revenues and expenses as summarized in Staff's Initial Brief and further supported herein, the total electric utility delivery services net operating income proposed by Staff for CILCO is $18,158,000, for CIPS is $35,823,000, and for IP is $107,114,000. (Staff IB, pp. 198-199)

2. Gas

Based on the operating expense statements for the gas utilities originally proposed by CILCO, CIPS, and IP and Staff's proposed adjustments to operating revenues and expenses as summarized in Staff's Initial Brief and further supported herein, the total gas utility net operating income proposed by Staff for CILCO is $13,622,000, for CIPS is $14,291,000, and for IP is $41,397,000. (*Id.*, pp. 198-200)

IV. COST OF CAPITAL/RATE OF RETURN

A. Introduction

B. Capital Structure

1. Resolved Issues

a. Common Equity Balances

b. Preferred Stock Balances

c. TFTN Balance – IP

2. Contested Issues

a. Short-Term Debt Balances

i. Short-Term Debt Balance Measurement Period

The Companies offer no new arguments in favor of using their proposed short-term debt measurement period. (Ameren IB, pp. 246-247) Staff's Initial Brief summarizes each of the reasons Staff's short-term debt measurement period is superior to the Companies' measurement period and references prior Commission Orders that adopted Staff's measurement period. For all of the reasons set forth in Staff's Initial Brief (Staff IB, pp. 203-206), the AIUs' short-term debt measurement period should be rejected.

ii. Netting Cash from Short-Term Debt Balances

The Companies argue *all* cash should be removed from their short-term debt balances during the *entire* measurement period because the Companies require higher cash reserves following the credit rating downgrades that occurred during March 2007 in connection with the potential electric rate freeze legislation. (Ameren IB, pp. 243-246) Even if that were appropriate, and it is not, the Companies never acknowledge that their proposed measurement period for IP, which ends December 31, 2006, does not even include March 2007. The Companies never identified specific months or amounts that relate solely to their credit rating downgrades. In fact, when the risk of an electric rate rollback and freeze evaporated the Companies' short-term debt balances either increased or stayed approximately the same. (Staff Group Ex. 1)

Moreover, the Companies have taken two positions that are in direct conflict with each other with the exception that each position results in higher rates charged to ratepayers. First, the Companies propose reducing their short-term debt balances by subtracting cash, which cash balances they allege exist solely due to their weaker credit ratings. Second, the Companies seek recovery of carrying costs associated with cash collateral for the gas utilities, a cash requirement that notably would not have been necessary were it not for their weaker credit ratings. (Ameren IB, pp. 180-185; Ameren Ex. 44.0, p. 7; Ameren Ex. 44.6) Similarly, the effect of the Companies' weakened credit ratings on their costs associated with electricity collateral postings is recoverable under Rider PER – Purchased Electricity Recovery. (Staff Ex. 13.0, p. 32) Yet, the Companies have not reduced their cash balance by the amount of cash collateral for which they seek recovery through utility rates. In summary, the AIU positions seek the best of both worlds – that is, remove impacts of credit rating downgrades that would reduce rates (*i.e.*, reduce short-term debt balances) and include impacts of credit rating downgrades that increase rates (*i.e.,* include cash collateral costs).

According to Ameren:

> There are two ways to treat the cash balances being held for utility purposes. One is to maintain them entirely outside of the ratemaking process by deducting them from the short-term debt balances, as the Ameren Illinois Utilities did… Alternatively, the cash could be included in rate base, and the short-term debt would be fully reflected in the capital structure. This approach could produce an excess return, however, because the cash would be earning both the overall cost of capital in rates, plus the money market return… (Ameren IB, pp. 244 - 245)

All else equal, (1) including cash in rate base would increase the amount of the AIUs' rate base; and (2) the rate base including cash would be relatively less risky than rate base excluding cash because there is virtually no risk associated with cash on hand. As such, adding low risk cash to rate base assets would lower the cost of capital, which, combined with including the income on cash investments in the revenue requirement, would exactly offset the higher rate base. That is, adding cash investments to rate base, accurately adjusting the cost of capital to reflect the resulting reduction in overall rate base risk, and including the income on cash investments in the revenue requirement, would not change the revenue needed from utility customers. Regardless of whether cash is a part of rate base, the end result on rates would be the same. Thus, Ameren's logic is faulty and Ameren's argument should be rejected.

Ameren next argues:

> …by differentiating between (1) cash on hand funding loans to sister utilities and (2) cash invested in liquid money market funds, [Staff] is suggesting that there is a fundamental difference between the two scenarios. But in reality only a cash management decision differentiates the two. (Ameren IB, pp. 245-246)

Staff explained in testimony and during cross-examination that the distinction between subtracting cash from short-term debt and subtracting money pool contributions from short-term debt has nothing to do with cash management; rather, Staff subtracted money pool contributions from the AIUs' short-term debt balances to ensure those contributions (which are included in the borrower's short-term debt balances) are not counted twice in both the lender and the borrower's capital structure. (Staff IB, p. 207; Staff Ex. 4.0R, p. 9; Staff Ex. 16.0, p. 9; Tr., p. 776, June 11, 2008)

Ameren also argues:

> The same short-term debt funds cannot be used simultaneously [to] support rate base and fund CWIP or be loaned to sister utilities. This is consistent with Staff's long-standing practice and Commission precedent. Again, the exact same logic applies to cash balances. (Ameren IB, p. 246)

To the contrary, each of the three situations Ameren describes is distinguishable from the others. Specifically, 83 Ill. Adm. Code 285.4020 sets forth the Commission rules for calculating short-term debt balances, which includes, in part, a calculation that nets a portion of CWIP from gross short-term debt balances. (83 Ill. Adm. Code 285.4020(b)) The formula for calculating the amount of Allowance for Funds Used during Construction ("AFUDC") capitalized on CWIP assumes that short-term debt is the first source of CWIP financing. (Order, Docket Nos. 02-0798/03-0008/03-0009 (Cons.), October 22, 2003, p. 68) Thus, subtracting that portion of CWIP assumed to be financing CWIP is necessary to avoid double-counting short-term debt. Similarly, subtracting loans to the money pool from short-term debt balances is necessary to avoid double counting the credit facility loan the lending utility took out and re-loaned to a sister utility. (Staff IB, pp. 206-207) In contrast, as the Companies point out, cash appears nowhere in the calculation of a utility's rates. (Ameren Ex. 47.0 (Rev.), p. 2) Therefore, even if one could trace short-term debt proceeds to cash, and the Company does not even dare to go that far (Staff IB, p. 207), there would be no double-counting of short-term debt associated with cash balances. Not surprisingly, there is neither a Commission rule that requires subtracting cash from short-term debt balances nor is Staff aware of any Commission Order that endorses subtracting cash from short-term debt for determining an appropriate capital structure for ratemaking purposes. Ameren attempts to draw a connection where none exists and the Companies' argument should be rejected.

Finally, Ameren attempts to justify subtracting cash from its' short-term debt balances by asserting:

> The Ameren Illinois Utilities are holding relatively high cash balances due to their credit standing in the aftermath of the legislative crisis involving the 2007 retail electric rate changes… Specifically, the AIUs lost same day access to funds and instead had to rely on bank facility borrowings which

> require a 3 business day lead time and generally involves a minimum loan tenor of 30 days… (Ameren IB, pp. 243-244)

Before Staff addresses Ameren's specific assertions, Staff needs to address the reason for the Companies' loss of same day access to funds. The AIUs' source of "same day access" to cash was the utility money pool. (Tr., p. 720, June 11, 2008) Specifically, Ameren Corporation ceased loaning funds to the AIU in December 2006 and Ameren Energy Resources Generating ("AERG") ceased loaning funds to the AIU in February 2007. (Staff Group Ex. 3) In other words, the Companies' loss to same day access of funds was not triggered by some loan agreement or other external source. It was the result of Ameren's unilateral decision to sever financial support of its Illinois utilities.

If the Companies' proposed adjustment was for the purpose specified, then such adjustment would have been limited to the period during which the Companies built up cash reserves and would have adjusted short-term debt for only the portion of cash the Companies allege they accumulated during that period. Instead, the Companies proposed to subtract the entire cash balance from short-term debt during the entire short-term debt measurement period. For CIPS and CILCO, the Companies' proposed short-term debt measurement period (which Staff opposes) covers June 30, 2006 to June 30, 2007, for which only four monthly balances out of thirteen occur after the AIUs' March 2007 credit rating downgrade. For IP, the Company's proposed short-term debt measurement period covers December 31, 2005, to December 31, 2006, which ends three months before the downgrades occurred. In Staff's view, the Companies' rationalization follows their proposed adjustment (rather than the other way around). If that were not the case, then the Companies would have identified specific dates and amounts that require such adjustment, which should have been supported by facts. Obviously, this argument is not the real reason for the Companies' adjustment.

Staff avers under no circumstances would it be reasonable to remove all cash, as the AIUs propose to do, since on any given date a utility would likely have cash on hand for operating purposes. To the extent the Companies stockpiled cash in response to threats of a rate freeze, they failed to specify any dates or amounts that can be attributed solely to the credit rating downgrade, which could potentially warrant an adjustment to remove *excess* cash from the capital structure.

In surrebuttal testimony, Ameren witness O'Bryan identifies March 2007 as a significant date because that is when the AIUs' credit ratings were downgraded to below investment grade. (Ameren Ex. 47.0 (Rev.), p. 3) However, as Staff explained, there was no noticeable increase in either the AIUs' cash or short-term debt balances during March 2007 when their credit ratings were downgraded. (Staff IB, p. 209) To the contrary, there was no noticeable increase in the Companies' cash balances until June 4, 2007, when CILCO's, CIPS' and IP's cash balances increased by $26 million, $108 million and $156 million, respectively. However, the AIUs' cash balances fell again quickly. In fact, by September 14, 2007, IP's cash balance had fallen to $73 *thousand*.[4] On October 10, 2007, CILCO's and CIPS' cash balances had fallen to less than $7 million and $150 *thousand*, respectively. Thus, even if the AIUs held any excess cash during some portion of 2007 - which they have not shown to be true - it would have been for a very short amount of time during Staff's proposed capital structure measurement period. Moreover, it would have included only one monthly balance out

[4] On August 28, 2007, legislation was enacted which significantly reduced the possibility of a rate freeze. (AmerenCILCO, AmerenCIPS and AmerenIP Ex. 7.0E, pp. 11-12)

of 13 during the Companies' proposed short-term debt measurement period for CILCO and CIPS and would be completely outside the Companies' proposed measurement period for IP (*i.e.,* twelve months ending June 30, 2007, for CILCO and CIPS; twelve months ending December 31, 2006 for IP). Furthermore, there is no indication that the cash sat in a reserve as Ameren claims it did because the AIUs' cash balances include wide fluctuations from day-to-day without any discernable pattern. (Staff Group Ex. 3)

In response to Ms. Phipps' testimony that each of the Companies held substantial cash balances prior to March 2007 (Staff Ex. 16.0, p. 7), Mr. O'Bryan presents a table that compares median cash balances over the 14 months before and after the March 2007 downgrade when the AIUs' credit ratings were downgraded below investment grade, which he argues, caused a drastic change in the AIUs' cash balances. (Ameren IB, p. 244) In some instances, what may appear to be dramatic increases in short-term debt (and cash) can be explained as bridge financing. For example, Mr. O'Bryan testified that IP's increase in cash during March 2008 and April 2008 (from $1 million to $382.8 million) occurred because IP "refunded the calling prior to maturity of some auction rate securities, and that amounted to a significant amount of cash prior to refunding the auction rate securities." (Tr., pp. 717-718, June 11, 2008) Moreover, Staff strongly recommends against giving Mr. O'Bryan's median cash balances any evidentiary weight. The work papers supporting the original figures were revised once, and those errors were never explained. (Staff Group Ex. 1; Staff O'Bryan Cross Ex. 1) Furthermore, the cash balances provided in the work papers supporting those figures are inconsistent with the data request responses and money pool reports that comprise Staff Group Ex. 3.

Staff's Initial Brief addresses the remaining arguments Ameren offers in support of subtracting cash from the AIUs' short-term debt balances. (Staff IB, pp. 206-210) Thus, the Companies' proposal to subtract cash from short-term debt should be rejected for each of the reasons provided in Staff's Initial Brief and further supported herein.

b. Long-Term Debt Balances

C. Cost of Debt

1. Resolved Issues

a. Short-Term Debt

b. Variable Rate Long-Term Debt – CILCO and CIPS

2. Contested Issues

a. Cost of TFTNs – IP

According to the Companies' Initial Brief, "[t]he use of the IRR method to determine the cost of TFTN was approved by the Commission in the 1999 and 2001 DST cases as well as the 2004 gas case." (Ameren IB, p. 248) However, Orders for IP's 2001 DST case and 2004 gas case do not describe the TFTN cost calculation and cannot be relied upon to support IP's IRR methodology because Staff and IP stipulated to an overall cost of capital, including a TFTN cost rate. (Order, Docket No. 01-0432, March 28, 2002, p. 55; Order, Docket No. 04-0476, May 17, 2005, p. 52) In IP's 1999 DST case, Staff and the Company agreed upon the TFTN cost rate, but the Order does not describe the TFTN cost calculation. (Order, Docket Nos. 99-0120/0134 (Cons.), August 25, 1999, p. 51)

In any event, use of IRR analysis to calculate the TFTN cost was not contested in the previous case (*i.e.*, Docket Nos. 06-0070/0071/0072 Cons.) and is not contested in the instant case. In both cases, Staff and IP calculate the TFTN cost rate using IRR analysis. In both cases, to calculate the annual IRR, Staff multiplies the monthly IRR by 12. In contrast, IP raises the monthly IRR to the twelfth power (*i.e.*, compounds the monthly IRR). In the 2006 IP DST case, the Commission concluded that Staff's method for calculating the embedded cost of TFTNs is correct. (Order, Docket Nos. 06-0070/0071/0072 (Cons.), November 21, 2006, p. 111)

The principal flaw with IP's methodology is that compounding the IRR incorrectly assumes the investor is paid once at the end of the year. In contrast, the trustee makes more frequent payments to TFTN investors, which warrants a lower rate of return.[5] Thus, the proper adjustment to reflect IP's frequent payments to the trustee is a cash working capital adjustment rather than a compounded rate of return. Staff's proposed cash working capital allowance reflects IP's daily remittance of TFTN funds to the trustee. (Staff IB, p. 215)

Therefore, IP's TFTN cost rate should be rejected for each of the reasons provided in Staff's Initial Brief (Staff IB, pp. 211-216) and further supported herein.

b. Embedded Cost of Long-Term Debt – IP

The Companies assert that the December 2007 interest rates that Staff used for IP's auction rate PCBs "…were a proxy for the true rate on the bonds and should be considered a short-term substitute to be used until a more permanent rate can be used which would reflect the truer cost of capital. That rate is now available, and… should be

[5] The correct periodic discount rate to apply when estimating the investor-required rate of return is that which equates the cumulative present value of the cash flows to the market value of an investment. That is, market value reflects payment frequency. Thus, estimating the annual investor-required rate of return requires raising a period rate of return to the power equal to the number of payment periods in a year. In contrast, the embedded cost of debt is based on principal amount outstanding, which is not a function of payment frequency. Thus, calculating the embedded cost of debt for ratemaking purposes requires annualizing a periodic rate of return. (Staff Ex. 4.0R, p. 27)

viewed as more appropriate than Ms. Phipps' proxy rate." (Ameren IB, p. 250) As explained previously, IP's selective update is problematic because it changes costs *and balances* included in IP's embedded cost of long-term debt calculation to reflect an April 2008 refinancing in capital structure measured on December 31, 2006. Moreover, it ignores (1) IP's other recent financing activity; and (2) changes to other capital structure costs *and balances* that occurred between December 31, 2006 and April 2008. (Staff IB, pp. 216-221)

As for Ameren's reference to the "truer cost of the capital," Staff notes that until the conclusion of IP's *next* rate case, it will more than recover the additional $4 million in interest cost associated with refinancing the auction rate PCBs via revenues intended to recover the $9 million cost associated with the loss on TFTN-refinanced debt, which will expire on December 31, 2008, but which is included in IP's December 31, 2006 embedded cost of long-term debt. (Staff IB, p. 218) That is, Staff's proposed cost of debt will be more than sufficient to cover the additional interest expense IP incurs on its new bonds relative to the interest expense of its auction rate PCBs.

For all the reasons provided in Staff's Initial Brief (Staff IB, pp. 216-221), and further supported herein, Staff's calculation of IP's embedded cost of long-term debt should be adopted and the Companies' selective update should be rejected.

c. Embedded Cost of Long-Term Debt – CIPS

Ameren suggests that benefits justified refinancing CIPS' intercompany note from UE. (Ameren IB, pp. 250-251) Staff avers Ameren misses the point. Staff never argued that CIPS should not have refinanced the note. Staff took no position on that decision whatsoever. Rather, Staff has consistently argued that CIPS paid an above-market cost to refinance the note. (Staff IB, pp. 221-226)

Ameren claims that in the market, CIPS would never be able to prepay a note for less than the principal amount. (Ameren IB, pp. 251-252) That would be true if the terms of the note, as established at the note's origination, *required* redeeming the note for no less than the principal amount upon demand by UE (*e.g.*, the standard make-whole call language for utility bond offerings; see Ameren IB, p. 253). However, the note at issue in the instant proceeding makes redemption optional. (Ameren IB, p. 251) Under those circumstances, one must assume that the borrower (*i.e.*, CIPS) would not redeem a note that carries a below-market interest rate by repaying 100% principal unless the note *required* the borrower do so.

Ameren's argument implies that because the note was privately held, CIPS could not redeem it at a market rate below face value. First, CIPS chose to enter into a private loan agreement with an affiliate. Ameren has not explained why CIPS did not "go to the market" to obtain funds for financing the asset transfer rather than borrow funds from UE. Had CIPS gone to the market to raise funds, rather than borrow from an affiliate, CIPS would have had the opportunity to repurchase outstanding, below-market rate indebtedness for less than face value. Second, from a legal perspective, the private nature of the loan agreement is irrelevant. For ratemaking purposes, the Commission must treat the intercompany note as if it had been held by an unaffiliated party. If the same note were held by unaffiliated party, then CIPS would have had the opportunity to repurchase that indebtedness at market rates rather than face value. (Staff IB, p. 223)

For all the foregoing reasons, including those provided previously in Staff's Initial

Brief (Staff IB, pp. 221-226), Staff's calculation of CIPS' embedded cost of long-term debt, which is consistent with the requirements of Section 9-230 of the Act, should be adopted and the Companies' cost calculation should be rejected.

d. Embedded Cost of Long-Term Debt – CILCO

D. Cost of Preferred Stock – Resolved

E. Cost of Common Equity

1. Resolved Issues

2. Contested Issues

a. Appropriate Return on Equity

Staff recommends that the Commission authorize an investor-required rate of return on common equity of 10.72% for the natural gas distribution operations and 10.68% for the electric delivery service operations of the AIU. (Staff IB, p. 227) For the limited purposes of this proceeding, the AIU have accepted Staff's recommended cost of common equity. (Ameren IB, p. 254) However, if the Commission accepts Ameren's position to update the cost of long-term debt to reflect the recent refinancing of IP's auction rate bonds, Staff's updated cost of equity analysis should also be incorporated into the overall cost of capital calculation to obtain concurrent estimates of the costs of the Companies' sources of capital. Staff's updated analysis indicates that the cost of equity is 10.73% for the natural gas distribution operations of the AIU and 10.32% for the electric delivery service operations of the AIU. (Staff IB, pp. 243-244) IIEC continues to recommend a return on common equity of 10.0% for both the electric and gas utility operations of the AIU. (IIEC IB, p. 15) CUB recommends a return on equity of 8.955% for the Companies gas distribution operations and 9.046% for their electric distribution operations. (CUB IB, p. 24) In this Section of the Reply Brief, Staff will respond to the positions taken by IIEC and CUB with regard to the rate of return on common equity for the AIU.

i. DCF Analysis

CUB claims that the Commission should use an annual DCF model because the quarterly adjustments to expected dividend yields result in doubly counting the effect of quarterly growth and thus, overcompensate shareholders at the expense of ratepayers. (CUB IB, pp. 29-31) What CUB witness Thomas raised is a working capital issue, not a cost of common equity issue. His argument implicitly assumes that working capital is not correctly measured. A working capital allowance compensates a utility for any delay between the time it expends cash to provide service and the time it receives cash from its customers for that service. If a utility is authorized an appropriate working capital allowance, by definition, it will receive cash to pay for all costs of service as they come due. Consequently, if one assumes an appropriate working capital allowance is authorized, Mr. Thomas' argument is invalid because the working capital allowance will eliminate any surplus or deficit in earnings created by the timing of the utility's cash collections and disbursements. Since utility companies pay cash flows (i.e., dividends) over the course of a year and not all at the end of the year, use of a quarterly DCF model is not only appropriate for rate setting purposes, it is necessary for a utility to recover its true cost of common equity. In fact, the Commission has explicitly rejected the use of an annual DCF model in previous proceedings. (Staff Ex. 17.0, pp. 19-20)

CUB's Initial Brief provides an example that purportedly demonstrates that the quarterly DCF "double-counts" the effect of quarterly growth and compounding. (CUB

IB, pp. 30-31) To the contrary, that example shows precisely how CUB witness Thomas' use of an annual DCF model ignores the market indicated investor required return and, instead, under compensates the Companies as the result of the false assumption of annual dividends. The scenario set in the first bullet point ignores the time value of money, incorrectly assuming that the cost to a company of paying a quarterly dividend is the same as if an annual dividend were paid. The second scenario reflects the true investor required return, given the reality that utilities actually pay dividends quarterly. By ignoring the time value of money, the first scenario understates the cost of equity by 14.61%.[6] Likewise, Mr. Thomas's use of an annual DCF, despite Companies' payment of quarterly dividends, understates the cost of equity. In contrast, the quarterly DCF properly compensates the AIU for the cost it incurs.

The argument regarding the use of a quarterly DCF versus an annual DCF model is a basic question of the time value of money. As Mr. Thomas correctly noted, "investors actually receive dividends quarterly and receive the benefits of reinvesting those dividends." (CUB IB, p. 31) Thus, he acknowledges the greater value of quarterly dividends relative to a single, annual dividend of the same total amount paid at the end of the year. Unfortunately, he fails to acknowledge that greater value to investors means a greater cost to the Companies, since the investors' required return *is* the Companies' cost of equity. Mr. Thomas' approach fails to compensate the Companies for that additional cost. In contrast, the quarterly DCF properly compensates the Companies for the costs it incurs.

[6] In fact, if investors expected to be paid only a single $12 dividend at the end of the year, as the first scenario implies, they would not pay $10 for a share of that stock at the beginning of the year. Rather, assuming all else is equal between the two scenarios; they would pay only approximately $8.91, in order to earn their required return of 34.61% (12 ÷ 8.91 ≈ 1.3461).

ii. Risk Premium Analysis

iii. Staff Cost of Equity Recommendation

b. Staff's Downward Adjustment

c. Growth Rates

CUB argues that analyst growth rates are overstated and should not be used in the DCF analysis. Rather, CUB urges the Commission to adopt its estimates of sustainable growth using the internal growth method and claims that academic literature concludes that historical growth rates are a far more accurate predictor of expected sustainable growth. (CUB IB, pp. 32-33) As Staff has pointed out, the academic literature that CUB cites do not indicate that utility growth rates appear to be upwardly biased or demonstrate that analyst growth rates are poor proxies for investor growth expectations. Staff thoroughly addressed this issue in its Initial Brief and will not repeat those arguments here. (Staff IB, pp. 236-240)

d. Beta

CUB witness Thomas claims that betas should not be adjusted for reversion to a market mean of 1.0. (CUB Exhibit 1.0, pp. 13-18) However, the Nagel paper that he cites actually contradicts his argument and found that a CAPM using raw betas is less accurate in predicting realized rates of return and explicitly rejected use of an unadjusted beta. (Staff Ex. 17.0, pp. 20-21) The beta parameter is generally derived from historical data, but, in theory, should be a forward-looking number. Thus, Staff adjusted the raw (i.e., historical) betas for the sample companies to improve the accuracy of the beta estimates. The Armitage text Mr. Thomas cites with regard to this argument notes that studies have shown that such adjustments result in appreciably better forecasts, finding that the reduction in both bias and inefficiency is greater the further away from one the beta in question is. Armitage states that the observed flatness of the Securities Market Line is due to two factors: 1) error in the estimation of true betas (i.e., the further above (or below) the mean an observed beta is, the more likely it is that the estimate error is positive (or negative)) and 2) regression toward the mean (i.e., moderation in risk over time). (*Id.*, p. 21)

Mr. Thomas concludes that mean reversion for utilities with betas below 1.0 is wrong and cites a Gombola and Kahl article that suggests that utility betas actually revert to a utility average beta rather than a market mean beta of 1.0. (CUB IB, p. 34) However, the derivation of the true industry mean beta is problematic. Not only is any estimate of the true industry portfolio beta mean dubious, as betas change over time, but, as noted above, the farther below the market mean a raw beta is, the more likely its estimate error is to be negative. Thus, the average of a portfolio of low betas, each of which is likely to be biased downward, will, itself, likely be biased downward. Regardless, as noted previously, Mr. Thomas' proposal to ignore beta reversion altogether and use an unadjusted beta was explicitly rejected in the Nagel paper he cites and should be rejected by the Commission in this proceeding. (Staff Ex. 17.0, p. 22)

e. Market Risk Premium

IIEC claims that the market risk premium presented by Staff is flawed and less reliable than IIEC witness Gorman's estimated market risk premium range. (IIEC IB, pp. 24-26) IIEC maintains that the growth rate estimate used by Ms. Freetly in her DCF analysis of the market return is not reasonable, which in turn makes her CAPM market risk premium unreliable and flawed. Mr. Gorman alleges that Ms. Freetly's market return DCF reflects a growth rate of over 11.5%. However, Mr. Gorman's calculation of Staff's growth rate does not factor in stock repurchases. (IIEC Response to Staff Data Request JF 5.01 – Staff Group Exhibit 4) Mr. Gorman's failure to consider stock repurchases in his calculation of growth produces an incorrect estimate of the growth rate implied in Staff's calculation of the market risk premium.

IIEC's market risk premium estimates are based on realized returns. (IIEC IB, pp. 22-26) As addressed in Staff's Initial Brief, historical market risk premiums do not indicate the additional risk premium that common equity investors are expecting in today's market and have been consistently rejected by the Commission. (Staff IB, pp. 241-242)

CUB continues to claim that, based on academic research, the equity market risk premium is in the range of 3.0% - 5.0%. (CUB IB, pp. 35-36) The research that CUB witness Thomas relied upon represents various opinions of the market risk premium that investors should expect, which is not necessarily the same as what investors truly are expecting. (Staff IB, p. 243) Staff's estimate of the market risk premium provides the actual difference between returns on risk-free and risky securities that exists in today's market and therefore provides the best indication of what investors can expect going forward. Hence, Staff's CAPM analysis should be accepted by the Commission.

f. Updated Cost of Equity

IIEC's Initial Brief states that Ms. Freetly proposes a reduction of only 10 basis points to her recommended gas cost of equity if Rider VBA is approved, without explanation or justification and that she is silent on any additional cost of equity effect of

Rider QIP. (IIEC IB, p. 28) Staff fully explained how the recommended 10 basis point risk adjustment was derived in Ms. Freetly's direct testimony and in the Rider VBA section of its Initial Brief. (Staff IB, pp. 255-258) With regard to Rider QIP, Staff was not silent on the issue. In the Rider QIP section of Staff's Initial Brief, Staff's recommendation to authorize a different rate of return for Rider QIP assets than it authorizes for rate base is summarized. (*Id.*, pp. 272-274) Nevertheless, and unlike IIEC, Staff does not recommend specific cost of common equity adjustments without supporting analysis. While Staff agrees that Rider QIP projects would be less risky than projects whose costs are not recovered through a rider, the record contains no analysis-backed quantification of that risk reduction and its effect on cost of capital.

F. Recommended Overall Rate of Return

1. CILCO Electric

As summarized in Staff's Initial Brief and further supported herein, Staff recommends a 7.93% rate of return on rate base for CILCO's electric delivery services, which reflects a 10.68% rate of return on common equity. (Staff IB, p. 245)

2. CIPS Electric

As summarized in Staff's Initial Brief and further supported herein, Staff recommends an 8.13% rate of return on rate base for CIPS' electric delivery services, which reflects a 10.68% rate of return on common equity. (*Id.*)

3. IP Electric

As summarized in Staff's Initial Brief and further supported herein, Staff recommends an 8.68% rate of return on rate base for IP's electric delivery services, which reflects a 10.68% rate of return on common equity. (*Id.*, p. 246)

4. CILCO Gas

As summarized in Staff's Initial Brief and further supported herein, Staff recommends a 7.95% rate of return on rate base for CILCO's gas delivery services, which reflects a 10.72% rate of return on common equity. (*Id.*)

5. CIPS Gas

As summarized in Staff's Initial Brief and further supported herein, Staff recommends an 8.15% rate of return on rate base for CIPS' gas delivery services, which reflects a 10.72% rate of return on common equity. (*Id.*, p. 247)

6. IP Gas

As summarized in Staff's Initial Brief and further supported herein, Staff recommends an 8.70% rate of return on rate base for IP's gas delivery services, which reflects a 10.72% rate of return on common equity. (*Id.*, p. 248)

V. PROPOSED RIDERS

A. Introduction

B. Resolved Issues

1. Riders UBA, UBBA and UBPA

C. Contested Issues

1. Rider VBA

a. Overview

In the instant proceedings, the Ameren gas utilities proposed that the Commission grant it approval to initiate Rider VBA ("Volume Balancing Adjustment" or "VBA"). As described in Staff's Initial Brief, Rider VBA is intended for Ameren to recover fixed costs, on a per customer basis, that it would otherwise not recover due to a volumetric decline in gas usage. (Staff IB, p. 249) Ameren provides generalized reasons why actual sales differ from forecasted sale volumes - weather, general decline in gas usage, and efficiency measures. (Ameren IB, p. 275) Staff did not make any policy or rate design recommendations with respect to Ameren's proposed Rider VBA, but only if approved by the Commission, certain modifications should be adopted. For various legal and policy reasons stated in their respective briefs, the VBA was opposed by CUB and the AG, through the testimony of AG/CUB witness Brosch. (CUB IB, pp. 36-49; AG IB, pp. 20-63)

b. Staff Proposed Modifications

i. Tariff Language Changes (Accepted by Ameren)

Ameren agreed to certain tariff language changes proposed by Staff, including the incorporation of any differences between its proposal and Rider VBA approved by the Commission in Docket Nos. 07-0241/07-0242 (Cons.). Ameren also agreed that Rider VBA would be a pilot program that sunsets on December 31, 2012, that certain reconciliation and rate of return reports would be made, and that Rider VBA would recover only fixed costs. (Staff IB, pp. 249-250; Ameren IB, p. 279) However, as discussed *infra*, Ameren did not agree to Staff's proposal to change its Rider VBA from a partial decoupling mechanism to a full decoupling mechanism.

ii. Rider VBA Computation Changes – Full Decoupling vs. Partial Decoupling (Opposed by Ameren)

In addition to the previously described tariff language changes agreed to by Ameren, Staff witness Ebrey also proposed that Rider VBA be modified to reflect a "full" decoupling. As noted in Staff's Initial Brief, and as provided by a NARUC publication, full decoupling adjusts utility revenues for any deviation between expected and actual sales regardless of the reason for the deviation. Full decoupling, "decouples" revenues from all variations between actual operations and those projected by the revenue requirement. (Staff IB, p. 250) AG/CUB witness Brosch described the Ameren proposal as "partial decoupling" which allows the utilities to retain for their shareholders the positive revenue from growth in the number of customers. (AG/CUB Ex. MLB-2.0, p. 5, AG IB, pp. 33, 37) Mr. Brosch also noted that the Commission has approved partial decoupling VBA riders for The Peoples Gas Company and North Shore Gas Company. (AG/CUB Ex. MLB-2.0, pp. 29-35)

Ameren's base rates are comprised of two charges: (1) a fixed monthly customer charge; and (2) a volumetric charge applied to the monthly billing units (therms). Ameren's proposed Rider VBA applies only to the second base rate charge – the volumetric charge – on a per customer basis. Thus, Ameren's proposal is a "partial decoupling" since it is applied only to the volumetric charge as opposed to the total charge billed to ratepayers. Ameren has agreed that its Rider VBA would recover fixed costs (Ameren IB, p. 279), but in actual application it would recover "volumetric revenues" on a per customer basis. Thus, Ameren would benefit from any increase in the number of gas customers twice: once from an increase in monthly customer charge revenues (since the VBA does not apply to the customer charge), and again in an increase in total volumetric charge revenues (due to an increase in the number of customers). If approved by the Commission, customers would see an additional charge (or credit) on their monthly bill depending on whether the per customer volumetric charge revenue showed an increase or decrease.

Ameren is opposed to Staff's proposed full decoupling modification, arguing that the Rider VBA formula is designed to recover only the utility's fixed costs that are reflected in the revenue requirement via the volumetric delivery charge. Ameren argues that it is misleading to maintain that volumetric charge revenues should be recovered on a per customer basis, as it has proposed, and at the same time knowingly keep silent about benefiting from any increase in revenue due to an increase in the customer count. Ameren justifies its proposal by stating "it is inevitable that a changing or increasing cost of service due to plant and expenses associated with new customers with unchanging revenue would not afford the Ameren Illinois Utilities a reasonable opportunity to earn the rate of return approved by the Commission in the docket." (Ameren IB, p. 284) Further, Ameren states that "(w)hile it is uncommon for a customer count reductions to occur, it is not beyond the realm of possibility either….More importantly, the record in this proceeding does not contain such analysis." (*Id.*) However, AG/CUB present the number of Ameren gas customers served in graphical form for the period 1997-2007. Over the 11-year period depicted, the data indicate there has been a slight increase in the number of gas customers served. (AG/CUB ex. MLB 2.0, Table 4, p. 36)

Moreover, Ameren's reliance on *Bluefield Waterworks v. Public Service Comm'n of West Virginia*, 262 U.S. 679, 690 (1923) ("*Bluefield*"), (Ameren IB, p. 284) is misplaced. The *Bluefield* case involved the water rates approved by the West Virginia Public Service Commission, which failed to accord proper weight to the enhanced costs of construction to the water utility's property. While the Supreme Court held that the *Bluefield* rates were confiscatory because rates should be sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the service, that holding is not comparable to Staff's position regarding Rider VBA in the instant proceeding. There is nothing in the record that indicates that an increase in customers would necessarily result in an increase in plant investment. The revenue requirement approved by the Commission would provide a reasonable return on the value of property currently included in rate base. To the extent that additional plant is required to serve additional customers, the Companies could file a new rate case, which according to their own amortization proposal for rate case expense, they intend to do every two years. While there has been some growth in the numbers of gas customers, it has been very gradual and has not been in large increments year to year.

Further, Ameren implies that there are adequate safequards because the AIU have agreed to provide the Commission with an annual report of their rates of return and the effect of that return on Rider VBA. (*Id.*, p. 279) Ameren also professes that "…there is little likelihood that the Commission will allow unreasonable earnings when it evaluates rider recovery of the costs on an annual basis. To the extent the report is not sufficient, the Commission can request further information concerning the Ameren Illinois Utilities, who have a duty to respond to the Commission pursuant to the PUA. 220 ILCS 5/5-101." Ameren further states that the "pilot" nature of the Rider VBA provides protection to customers since it will terminate on December 31, 2012. (*Id.*, p. 280)

In response to Ameren's implied safeguards, Staff would state the obvious, that reporting requirements alone will not cure a flawed rider mechanism that is skewed in favor of the utility. It is also obvious that the Commission would not knowingly approve such a flawed rider, but the reality is, sometimes those changes can only be made prospectively and with great delay. (*See* Docket Nos. 01-0706/01-0707 (Cons.)) In other words, Ameren would like the Commission to believe it is entitled to benefit from any increase in customer count and at the same time reflect volumetric charge revenues on a per customer basis. As it has been noted often, “Ameren can not have it both ways”. In this proceeding, as in all other rate case proceedings, the revenue requirement is based upon all costs in total, not some costs in total and some costs on a per customer basis.

Ameren also attempts to provide the Commission some assurance that customers will be protected through the pilot nature and the reporting provisions of Rider VBA. Staff argues, on the other hand, that the “pilot nature” provides protection only in due time, and only if, the Commission does not extend or make permanent Rider VBA. AG/CUB witness Brosch argues that it would not be logical to approve three additional, partial decoupling riders. Mr. Brosch agreed with Staff that the approval of additional riders based on partial decoupling (such as Peoples/North Shore) would not provide the Commission with another alternative for comparison at the end of the pilot periods to determine which form of decoupling is preferable. (Staff IB, p. 251) If the Commission were to approve Rider VBA, then it must reflect a full decoupling mechanism, not partial decoupling.

c. Opposition by AG and CUB

The AG and CUB raised various legal arguments in opposition to Ameren’s proposed Rider VBA. (AG IB, pp. 31-63; CUB IB, pp. 45-49) Staff will not endorse or comment on those arguments other than to state it is beneficial for all in the regulatory environment to periodically review the decision in *Business and Professional People for the Public Interest v. Illinois Commerce Commission,* 146 Ill. 2d. 175, 244, 585 N.E.2d 1032 (1991).

d. Conclusion

In light of the concerns raised by Staff witness Ebrey (full vs. partial decoupling) and AG/CUB witness Brosch (legal concerns), and given the fact that the Commission has not had sufficient time to evaluate the riders approved for The Peoples Gas Company and North Shore Gas Company, the prudent course of action would be to delay the approval of additional VBA Riders. However, should the Commission decide that approval is warranted, Staff respectfully requests that all of its recommendations, including a full decoupling requirement, be adopted as conditions to Rider VBA approval

2. Rider QIP

a. Rider Recovery of Infrastructure Investment Expense

Rider QIP should not be approved in this proceeding. The Companies' arguments and support of the proposed Rider QIP are deficient. While the AIU patterned, to some degree, the proposed Rider QIP after Part 656 (83 Ill. Adm. Code 656), there remain substantial distinctions between Ameren's proposed Rider QIP and the riders drafted under Part 656 pursuant to legislative authority (220 ILCS 5/9-220). Further the AIU have not provided the details requested in the Final Order in the recent Peoples Gas rate case, including: detailed description and cost analyses, justification, description of functionalities to be achieved and forgone, benefit analysis of the proposed infrastructure investments, or an analysis balancing how the cost and cost savings will be flowed to the customers. (See Final Order, Docket Nos. 07-0241/07-

0242 (Cons.), February 5, 2008) The allowance of recovery of infrastructure investment costs outside of base rates within a rate case raises particular issues which must be addressed before such a rider can be approved. The issues include: single-issue ratemaking, test year principles, whether the circumstances warrant rider treatment, and whether terms of the proposed rider are written with sufficient clarity. Ameren has failed to fully address these issues. In Staff's view, as discussed below, the nature of the concerns raised by Ameren in support of its proposed Rider QIP are such that they are shared by many, if not all public utilities and public utility customers in the State. As such, the issues cannot be fully and fairly addressed in any one utility's rate case, but should be addressed in a separate collaborative proceeding in which all stakeholders could participate. (Staff Ex. 24., pp. 33-5) The proposed rider should be rejected by the Commission.

The AIU begin their argument by discussing the various impediments to investing in infrastructure improvements. (AmerenCILCO Ex. 2.0E-G, AmerenCIPS Ex. 2.0E-G, AmerenIP Ex. 2.0E-G, p. 28) They state that some funds come from "cash flow from operations" but argue that flow "will be insufficient to make such improvements based on a static rate base and revenue requirement." (Ameren IB, p. 285) Therefore, they contend, it will be necessary to raise the requisite funds from "the capital markets". (*Id*.) To address this concern, the AIU are requesting rider treatment which would result in the infrastructure investment costs being recovered on a stand alone basis rather than being considered in the aggregate with other costs and earnings. However, as the supreme court has stated:

> The rule against single-issue ratemaking recognizes that the revenue formula is designed to determine the revenue requirement based on the

> *aggregate* costs and demand of the utility. Therefore, it would be improper to consider changes to components of the revenue requirement in isolation. Oftentimes a change in one item of the revenue formula is offset by a corresponding change in another component of the formula. (*Business And Professional People For The Public Interest et al., Appellants, v. The Illinois Commerce Commission*, 146 Ill.2d 175, 244-245 (1991))

Unless Ameren can demonstrate that this treatment is warranted, then it would violate the rule against single-issue ratemaking. Costs and earnings should be considered in the aggregate; so that changes in one or more items of expense or revenue may be offset by increases or decreases in other such items. (See *A. Finkl v. Illinois Commerce Commission*, 250 Ill. App. 3d 317, 325 (1993))

The Companies have not demonstrated that recovery of infrastructure investment through a rider is warranted. The determination as to whether a recovery through a rider is warranted is key to the determination as to whether single-issue ratemaking and test year rules have been violated. The Commission may approve direct recovery of unique costs through a rider when circumstances warrant such treatment. (*Citizens Utility Board ("CUB") v. Illinois Commerce Commission ("ICC")*, 166 Ill. App. 3d 111, 138, (1995)) The problem with the Companies' argument is that it fails to demonstrate the simple, basic issue of why rider recovery for infrastructure investment, which is normally included in rate base, is appropriate. Each of the AIU has been in business for many decades and over that time they have been able to modernize their systems and even construct expensive power plants costing hundreds of millions and even billions of dollars without the need for a rider to recover those investments between rate cases. Ameren provides no explanation in this case for why the situation today is so unique that a regulatory paradigm that functioned effectively for so many years should now be jettisoned. Such a drastic step should not be taken lightly and if it is to be taken it should be based on considerably more evidence than the Companies have provided in this proceeding.

The Companies have not provided the details requested by the Commission in the Peoples Order. (See Order, p. 162, Docket Nos. 07-0241/07-0242 (Cons.)) The AIU provide a wish list of projects to be recovered under the proposed rider. One is "capitalized expenditures related to *existing* distribution plant" which would include expenditures "to "harden" the system (make it stronger and more durable) or replace defective, worn out or deteriorated facilities serve to increase system reliability." (Ameren IB, p. 287) The Companies also may consider throwing "smart metering" and "smart grid" technologies into the rider recovery pot. (*Id*.) The AIU indicate they "…intend to begin studying the costs, benefites and steps that would be necessary…" (*Id*., p. 289) Ameren has failed to provide the details to support its request.

The open-ended nature of the rider as suggested by Mr. Nelson's discussion raises a concern that approval of Rider QIP would provide a license to the Companies to transform the distribution in a manner that may not coincide with the ability of their ratepayers to pay for the corresponding costs. As the events of 2007 clearly indicate, the concerns of ratepayers appear to be with the levels of their electric bills. It is not clear what system improvements beyond the minimum required level of service and reliability they would be willing to pay extra for at this juncture. Thus, it would not be wise for the Commission to give the Companies a rider mechanism that would make it easier to pass along the costs of investments that may result in rate shock. (Staff Ex. 6.0, p. 37)

Ameren has not provided evidence to support a finding that infrastructure investment expenses are unexpected, volatile, or fluctuating. To the contrary, the Companies indicate that they "plan to spend over $1.1 billion in capital expenditures for the 2007-2009 time period." (Ameren IB, p.285) The Companies' flawed arguments against Staff's proposal that they base a rate case on a future test year have all been thoroughly refuted by Staff in its Initial Brief. (Staff IB, p. 260)

The Companies also seek to counter Staff's argument that customers should not have to pay more for system reliability under the proposed Rider QIP. The Companies contend that "[c]ustomers are not paying "more" than they should by virtue of the rider. What customers should pay is the reasonable cost of providing reliable service - that is all the Ameren Illinois Utilities seek." They go on to state that "[t]he rider permits timely recover[y of] our costs, nothing more, nothing less. (Ameren IB, p. 290)

In fact, the proposed Rider QIP represents an abrupt departure from traditional regulatory practices by allowing the Companies to raise rates between cases to recover additional infrastructure investments. This higher quality of service is something ratepayers should normally expect from the Ameren Illinois Utilities. It should not be something they have to pay extra for. The Ameren Companies have a statutory obligation to provide safe and reliable service at minimum cost. They should not receive an additional financial reward, as would be provided by Rider QIP, to fulfill this obligation to maintain a safe and reliable system. (Staff Ex. 6.0, pp. 38-39)

The Companies then seek to turn the tables on Staff to provide proof why the rider is not needed. They argue that Staff's position implies "that the same level of reliability can be achieved for lower costs." They go on to state that "[t]here is no evidence of that; no party has offered any proof that we could achieve any particular level of reliability for less than we expect to spend." (Ameren IB, pp. 290-291) This argument misses the focus of Staff's objection. The dollar amounts are not in question in this proceeding. Ameren is touting the expenses it is going to incur in a rate case with a historical test year and requesting authority to recover the future expenses separate and apart from the aggregate with of the utilities' other costs and earnings. Staff objects that customers would incur significant additional costs by paying for the infrastructure investment expenses through a rider. Ameren has not demonstrated that rider recovery is necessary. The infrastructure investments the Companies seek to recover through the rider are capital expenses. Test year capital expenses are included in the Companies' rate base, thus are included in the revenue requirement in this proceeding. Rider QIP would also affect the risks and costs of capital for the Companies, and thus alter the appropriate cost of common equity. (Staff IB, p. 272) Although the single-issue ratemaking prohibition "… does not circumscribe the Commission's ability to approve direct recovery of unique costs through a rider when circumstances warrant such treatment" *(CUB v. ICC*, 166 Ill. App. 3d 111, 138), Ameren has not made such a showing. The Companies are seeking a profound change to the regulatory process as it applies to rate base investments and they have a responsibility to explain why the system that has worked for so long in the past needs to be changed. Ameren has not demonstrated that infrastructure investment costs warrant rider recovery.

b. $100,000 Offer

Ameren offers to "pay a combined fee of $100,000 for their annual filing" of proposed Rider QIP projects. (Ameren IB, p. 290) In Staff's view, Ameren's proposal to pay $100,000 with each annual filing, while ostensibly made to ameliorate concern about a burdensome level of work imposed by those filings on Commission Staff, would create an additional concern. The payment, coming of the utility's own volition and in the absence of any requirement, would immediately raise questions about the degree to which Staff and the Commission could make truly independent decisions about Ameren's Rider QIP filings when each one was accompanied by an Ameren payment. The suggested payment would create the appearance of impropriety.

c. QIP as Pilot Program

Ameren contends that its proposal to accept Rider QIP as a pilot program through the Commission's Order in this case "accommodates Mr. Stoller's concern, and allows the Commission to consider a permanent program or rule in a broader proceeding, outside of a rate case." Actually, Mr. Stoller's concern is not simply whether Ameren has or does not have Rider QIP as a pilot or permanent program. Mr. Stoller's principal concern is that the Commission should be certain of the direction it wants to see system modernization take in the future in Illinois *before* it requires Ameren ratepayers, or any other utility ratepayers, to start paying for accelerated system modernization. When one does not know one's destination, it is very hard to get there. Until the Commission determines with at least some degree of clarity the direction it prefers that utility system modernization should take in the future in this State, it should not be requiring utility ratepayers to fund experiments and pilots.

d. Request for Oral Argument

AARP has requested an opportunity to present its arguments regarding Rider QIP[7] orally before the Commission "at the appropriate future time." (AARP IB, pp. 2-3) Staff believes that oral argument regarding Ameren's proposed riders is unnecessary. Both Rider QIP and VBA have been extensively addressed in the instant proceeding in testimony, cross-examination, and briefs. Furthermore, the Commission has recently heard oral argument in the North Shore Gas Company/Peoples Gas Company rate proceeding regarding two very similar riders. (*See* Tr., Docket Nos. 07-0241/07-0242 (Cons.), January 23, 2008, pp. 1-108) As such, Staff believes that the Commission will be able to make an informed decision regarding Ameren's proposed riders based on its knowledge of the underlying principles and the extensive record developed in the instant proceeding without the benefit of oral argument.

VI. COST OF SERVICE/REVENUE ALLOCATION

A. Introduction

The arguments by both the IIEC and the Commercial Group in support of basing proposed rates on costs should be rejected. As discussed in Staff's Initial Brief, the extraordinary developments that have unfolded for Ameren customers since the expiration of the rate freeze on January 2, 2007 strongly argues for increasing rates on an across-the-board basis, rather than according to costs. (See Staff IB, pp. 278-283)

The IIEC and the Commercial Group present a host of arguments on behalf of a cost-based rate regimen. Staff anticipated and addressed IIEC's (IIEC IB, pp. 54-63)

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[7] While AARP's IB focuses solely on Rider QIP, it appears that AARP may also be requesting oral argument regarding Rider VBA.

and CG's (CG IB, pp. 7-8) regarding basing the proposed rates on costs in its Initial Brief. (Staff IB, pp. 278-283)

While the IIEC contends a cost-based approach "is consistent with the law and past Commission policy" (IIEC IB, p. 43), and ties this approach to encouraging efficiency which "is a declared goal and objective of the PUA", IIEC fails to recognize the current regulatory environment and concerns of Ameren ratepayers. (See Staff IB, pp. 279-281) The IIEC references the PUA concerning the relationship between rates and costs. The IIEC also argue that a cost-based approach is consistent with the PUA's concept of equity that "the cost of supplying public utility services is allocated to those who cause the cost to be incurred." In contrast, the IIEC contends that the across-the-board increases proposed by Ameren and Staff fall short of each of these standards and are, thereby deficient. (IIEC RB, p. 43)

The Commercial Group cites the Commission Order in Commonwealth Edison Company's last rate case in support of cost-based rates as well as its Final Order in Ameren's last base rate case (Docket Nos. 06-0700/06-0071/06-0072 (cons.)) reaching a similar conclusion. Thus, the Commercial Group argues that rates in this case should be based on cost, adding that "[a]n across-the-board increase would unreasonably harm those classes that are currently subsidizing other classes by increasing those subsidies further." (CG IB, p. 4)

Under normal circumstances these arguments for cost-based rates would be considered reasonable. However, given the ratemaking climate since January 2, 2007, a cost-based approach would be inadvisable. Bill impacts should be given primary consideration to alleviate the concerns of Ameren customers and the state legislature since the rate freeze expired on January 2, 2007. (See Staff IB, p. 279) These concerns resulted in legislatively mandated rate reductions.

Further evidence about the problems ratepayers are encountering is provided by Ameren. A March 2008 memo by Scott Cisel to "all Ameren Illinois Co-workers" sums up the problems Ameren customers are encountering with their utility bills as follows:

> During my 33 years, I have never seen a situation like this. More than 1/3 of the residential customers have a 30 day or older past due amount. The total amount past due is more than doubled what it was a year ago. (Memorialization of Ex Parte Communication 3/20/2008)

Clearly, Ameren's residential ratepayers are already experiencing extraordinary difficulty paying their bills absent the increase in this proceeding. This problem indicates the extent to which bill impacts remain an overriding concern for Ameren ratepayers. (Staff Ex. 18.0, pp. 3-4)

An across-the-board rate increase would pass the rate change to ratepayers on an equal percentage basis and would be consistent with the rates developed in Docket No. 07-0165 to address bill impacts and is the most appropriate approach in this proceeding. (See Staff IB, p. 280) An equal percentage increase would equally distribute the higher rates, removing any impression that individual ratepayers had been unfairly treated. Ameren customers are clearly concerned about the level of their electric bills, an unequal distribution of the rate increases or decreases may cause further distress. (See Staff IB, pp. 280-281)

B. Cost of Service

1. Resolved Issues

2. Contested Issues

a. Appropriateness of Cost Study (Gas and Electric)

b. Minimum Distribution System (Electric)

The arguments by both the IIEC (IIEC IB, pp. 46-54) and CG (CG IB 5-6) for adopting a Minimum Distribution System ("MDS") approach to the cost of service study should be rejected. Staff anticipated and fully addressed all of IIEC's and CG's arguments regarding the MDS approach to the cost of service study in its Initial Brief (Staff IB, pp. 275-277). As discussed therein, this concept conflicts with cost principles and with Commission precedent as well.

c. Cost of Service Study in Next Case (Gas and Electric)

Staff anticipated and fully addressed all of Ameren's arguments regarding the cost of service study in Ameren's next rate proceeding (Ameren IB, pp. 303-304) in its Initial Brief (Staff IB, pp. 277-278).

d. Other

C. Revenue Allocation Issues

1. Cost-Based (Gas and Electric)

The arguments by the IIEC and the Commercial Group for a cost-based revenue allocation should be rejected for the reasons previously discussed in the Introduction to the section on cost of service and revenue allocation. (See Section VI. A.) Even though as both parties point out, the rates of return for individual rate classes vary considerably, bill impacts remain the overriding issue for Ameren ratepayers.

The Commercial Group seeks to respond to the statement by Staff witness Lazare that "Individual ratepayers will not be able to argue that they have been unfairly treated if they receive the same percentage increase (or decrease) as other customers of their utility." (Staff Ex. 6.0, p. 43) by contending that "individual ratepayers or classes of ratepayers that already subsidize other customers justifiably feel it is unfair to increase those rate subsidies further by an ATB [across-the-board increase]."

The IIEC for its part contends that the Commission has focused on costs "[s]ince the initiation of delivery service in Illinois in 1999". The IIEC goes on to state that "[w]hile the Commission has recognized that consideration of rate impacts may be appropriate in certain circumstances, it has suggested that its general approach would be to ensure that one customer class did not subsidize the delivery service rates of another." (IIEC IB, p. 55)

Staff would note that the Commission has, in fact, tried to use costs as a basis for the rates that went into effect for Ameren's bundled customers on January 2, 2007. The reaction was so great that it was compelled to open an investigation of those rates that resulted in wholesale changes that were instituted to address bill impacts. In this case, the Companies are seeking further rate increases. It would be unrealistic to assume that ratepayer concern about the bill impacts resulting from these additional increases will be diminished in any meaningful way.

The IIEC goes on to present an argument that cost-based rates are both equitable and efficient. (IIEC IB, pp. 56-57) Staff does not dispute this argument. Nevertheless, at certain junctures other criteria emerge as even more critical for the ratemaking process. For the reasons discussed previously, bill impacts continue to be the overwhelming concern for Ameren ratepayers and that is why an across-the-board increase on existing rates is the most reasonable approach in this case.

2. Across-the-Board (Gas and Electric)

a. Calculation of Increase

Staff and Ameren agree that calculating the across-the-board percentage increases for the approved gas rate increase amounts should be based on Gas Service Revenues excluding Other Revenue and Special Contracts. (Staff IB, p. 283; Ameren IB, p. 305) Staff further agrees with Ameren that the across-the-board percentage multiplier should be adjusted so that the approved revenue amount is achieved (Ameren IB, pp. 305-306).

b. Increase Rate Elements by Equal Percentage

i. Gas

Staff and Ameren both agree that the issue regarding increasing each gas rate element by an equal, across-the-board percentage has been resolved. (Staff IB, pp. 283; Ameren IB, pp. 308-309)

ii. Electric

The IIEC repeats a number of its previous arguments in the discussion of this issue and since they have already been answered, it would not be useful to present the discussion again. However, one IIEC argument does deserve a response. That argument contends that the Ameren and Staff overlook the fact that residential customers "have already been the beneficiaries of substantial rate mitigation", referencing the recently completed Docket No. 07-0165. (IIEC IB, p. 59)

In fact, rate changes from Docket No. 05-0165 did not fully go into effect until January 1, 2008. (Order on Rehearing, p. 2, Oct. 29, 2007) That means the redesigned rates to address bill impacts will remain in effect for considerably less than a year before they return to a cost-of-service foundation under the IIEC proposal. If accepted, this would undo the efforts to address bill impacts for Ameren ratepayers.

3. Other Mitigation Proposals (Gas and Electric)

VII. RATE DESIGN; TARIFF TERMS AND CONDITIONS

A. Introduction

B. Resolved Issues

1. Gas and Electric

a. Budget Billing Plan Tariffs

b. Refundable Deposits for Line Extensions

i. Electric

ii. Gas

2. Gas

a. Customer Charges and Metering Differentials

b. Use of PGA in Cashout Mechanisms

c. Curtailment Language

d. Small Volumetric Distribution Charge

e. Rate 4 – CIPS

f. Renaming of Certain Gas Customer Classes

g. Rate 2 – CIPS

h. CIPS/ME Rate Area

i. CIPS/ME Consolidation of PGA Rates

j. Group Balancing Service for CILCO

k. Elimination of Banks for CIPS and CILCO

l. Standard Information Provided with Customer Usage History

m. Rates 4 and 5 – IP

n. Tariffs

i. Reconnect Charge

ii. Dishonored Check Charge

iii. Free Footage Allowance for Service Connections

iv. IP Rider H – Adjustment for Pipeline Transition Surcharge

v. IP Service Activation Fee

3. Electric

a. Supply Cost Adjustments

i. Supply Procurement Adjustment Amounts

ii. Uncollectible Factors by Rate Class

iii. Cash Working Capital Factors and Revenue Lag Days

C. Contested Issues

1. Gas and Electric

a. Standardization of Tariffs and Services in Conjunction with the Proposed Across-the-Board Rate Change

b. Other

2. Gas

a. IP Rate 76 as a Stand-Alone Tariff

The elimination of IP's Rate 76 as a stand-alone tariff remains a contested issue in the instant proceeding. Staff witness Harden states a concern that the elimination of Rate 76 could result in unequal bill impacts. (Staff IB, p. 299) Ameren proposes to increase each of the Rate 76 components by the overall base percentage increase and then "re-segmenting the components" into the non-residential Gas Delivery Service rates. (Ameren IB, p. 328) Staff maintains that the "re-segmenting" will cause unequal bill impacts to IP's customers. Staff does not believe it will be clear to customers that the resulting rate values will be the same whether Rate 76 is on a stand-alone or merged basis. (Id., p. 330)

In addition, Staff does not agree with Ameren's contention that "in conforming tariff structures that differ across three service territories, certain provisions enjoyed by certain customers will be eliminated." (Ameren IB, p. 330) Ameren's choice to eliminate services and offer fewer choices to transportation customers is a deliberate one, not forced by any changing energy market requirements.

AIU states its primary objection to Rider OT is that it "allows customers essentially to switch back and forth between system sales gas and transportation service …. [Ameren Ex. 16.0, p. 40]) It opines that such an option invites economic gaming by participating customers in a manner that burdens the operation of an efficient system". (Ameren IB, pp. 329-330) However, this claim has never been demonstrated in the record. Ameren made both an economic argument about gaming and this operational argument. It proved neither of them. (Staff IB, pp. 310-313)

b. Size of Storage Banks/Method by which to Determine

Ameren has argued that the current energy market compels them to make sweeping changes to its tariffs. Ameren points to price volatility, pipeline tariffs and operational issues that make this necessary. (Ameren IB, p. 333)Ameren argues further that Staff refuses to evaluate its evidence and that Staff has provided no evidence of its own. (Ameren IB, pp. 341-342) Staff does not accept the premise of decreasing pipeline tolerances (Staff Ex. 11.0, p. 9) but has accepted that there is increased price volatility (*Id.* p. 29) and an increase in operational interruptions. (Staff Ex. 23.0R, p. 16) See discussion of these three issues below. In any event, Staff rejects the Ameren position that these premises necessitate its proposed reductions in customer banks.

In addition to its comments on this issue from its Initial Brief (Staff IB, p. 315), Staff rejoins that Ameren has never given a good answer to Staff's point regarding the fact that despite the necessity that Ameren has claimed, no other LDCs in Illinois have filed rate cases during this new era asking for the same sweeping reductions in transportation service. In fact, Peoples, North Shore and Nicor, which have all much more flexible services than Ameren, have not asked for any significant reductions in service in their most recent rate cases. Ameren has not shown that its operations require them to have an extremely rigid and inflexible transportation service in order to operate responsibly. Ameren can and should adapt to the changing environment in the same manner as these other utilities.

In its direct testimony, Ameren provided current tariff sheets from two interstate pipelines. (Ameren IB, p. 336) Because the two current tariff sheets could not possibly show a trend, Staff asked Ameren to provide more information. (Staff Ex. 11.0, pp. 28-30) When asked to provide evidence of this trend, Ameren only supplied current tariff sheets from the other pipelines that the AIU receive service on. (*Id.*) Tariffs sheets from a single point in time cannot show evidence of a trend. Then, Staff searched for historical evidence and found that there was no trend; in fact certain charges had fallen. (*Id*.; Staff IB, p. 315)

The burden of proof in this case is on Ameren, not on Staff. The evidence provided by Ameren on more than one occasion cannot show what Ameren claims that is does. After Staff pointed out the weakness of the evidence that Ameren provided, Ameren changed its rationale to say that its “actual position” was not what it clearly stated in its direct testimony but rather something different. (Ameren IB, p. 342) This position in rebuttal directly contradicts Ameren’s direct testimony where it says that the tariff sheets that they presented in Ameren Ex.16.3 demonstrate this. Price volatility “is causing the pipelines to operate with tighter tolerances which are reflected in their tariffs for services such as daily balancing, imbalance cashouts and penalties.” (Ameren Ex.16.0, p. 5) Contrary to Ameren’s assertion (Ameren IB, p. 336), the tighter tolerances for interstate pipelines are not shown on Ameren Exhibit 16.3 G. The only party to provide an historical comparison of tariff sheets was Staff. (Staff Ex. 11.0, p. 29) That testimony demonstrates that the tariffs have not changed in this regard.

The Ameren complaint that neither Staff nor CNEG have a substantial response to the evidence of additional operational restrictions, notifications, and alerts on the interstate pipelines (Ameren IB, p. 341) is simply not accurate. Staff acknowledged that Ameren had provided actual evidence after Staff pointed out that Ameren's evidence could not demonstrate the trend claimed. (Staff Ex. 23.0R, pp. 16-17) After acknowledging that Operational Flow Orders ("OFOs")'s are on the rise, Staff noted that other utilities are dealing with these same market conditions without feeling a compulsion to emasculate their services to transportation customers. (*Id.*)

Another example of Ameren evidence not supporting its claims is its purported evidence of gaming. The six hand-picked examples that Ameren provided to Staff and the calculations of detriment to sales customers were horribly botched. (See Staff Ex. 23.0R, 17-23) Ameren would have been better to not invent detriments as calculated in Ameren Exhibit 30.6 just to cover the fact that it had no proof.

Ameren has advanced the accusation that a "reasonable reader" could take the information that it provided its response to IIEC DR. 2.34-2.36 and calculate the detriment to sales customer in these six examples. (Ameren IB, p. 343) This implies that Staff must not be a "reasonable reader." However, to make the calculations of detriment that Ameren made in Ameren Ex. 30.6 (albeit incorrectly), Ameren had to supply additional information about prices. Ameren argues that it did not need to do a more thorough study, which would have been an "immense undertaking," to prove gaming and detriment. (Ameren IB, p. 345) Then Ameren obfuscates the issue by using *imbalances,* which are an inevitable fact of transportation service, in the place of *gaming and its harm*. (*Id*.)Of course no one has asked Ameren to prove imbalances. These are clearly visible. What is not clear is whether the "gaming behavior" mentioned by Ameren is systematic, and whether there is a net detriment to sales customers over time. And that is where Ameren has failed to demonstrate gaming.

Ameren maintains that it opposes economic subsidies and that it is Ameren's objective here to minimize them. (Ameren IB, p. 345) However, all of the changes that Ameren has proposed only deal with subsidies flowing from sales customers to transportation customers. So its opposition rings hollow. This one-sided concern is especially evident when one looks at Ameren's initial proposal. Each proposal that Ameren made resulted in either lost flexibility for transportation customers or money flowing from them to sales customers. (AmerenCILCO Ex. 16.0G, AmerenCIPS Ex. 16.0G, and AmerenIP Ex. 16.0G)

Ameren states that "banks essentially allow the transportation customer to borrow gas from Ameren Illinois Utilities on days that such a customer may under-schedule and end-up short on gas delivered by suppliers." (Ameren IB, p. 349) The quotation is from Ameren witness Glaeser's direct testimony referring to CILCO's monthly balancing. (AmerenCILCO Ex. 16.0G, AmerenCIPS Ex. 16.0G, and AmerenIP Ex. 16.0G, p. 12) Its explanation is incorrect and misleading. This is not a "loan". Banks essentially allow customers to over deliver with the excess going into their bank balances. Then, when a transportation customer under-delivers, it receives gas from that bank account. In both Ameren's and Staff's alternative banking proposals, if the bank does not contain any gas then the utility does not *loan* gas, it *sells* gas to the customer.

c. Elimination of IP's Rider OT Along with its Bank

See "Rate 76 as a Stand-Alone Tariff" Section VII. C. 2. a., above.

d. Elimination of CIPS' Stand-by Reserve

Ameren disputes Staff's position that CIPS' Stand-by Reserve is a popular and useful service to customers. Ameren brings up a calculation from Staff's direct testimony (Staff Ex. 11.0 p. 37.) where the calculations were not adequately explained, claiming that "Staff's analysis is in error." (Ameren IB, pp 352-353) Staff clarified in rebuttal testimony what its calculations showed. (See Staff Ex. 23.0R, p. 24) First, 50% of transportation customers across the AIU territories have a system backup either through CIPS Stand-by Reserve ("SBR") or Rider OT. Therefore, it is not a rare option or choice. Second, 74 sales and transportation customers under CIPS are *paying* for a partial designation of greater than 0%. That is, they are voluntarily paying money monthly for the privilege of having this backstop. It is evident from their willingness to pay for the service that they find it beneficial. Ameren has not shown that the costs of this service are not being recovered from the customers electing this service. Third, 20% of the transportation customers behind CIPS are still designating an amount greater than zero. Therefore, transportation customers are electing service at a higher rate. Transportation customers tend to fall in higher usage classes and may be subject to curtailment before the sales customers that are primarily in the lower usage classes. (*Id*.)

Ameren makes two arguments against expanding the SBR to all AIU customers. (Ameren IB, p. 353) First, "there is [sic] not enough pipeline capacity resources in the Midwest to even offer this outdated service." (Ameren IB, p. 353) Second, Ameren claims that even if it were possible to secure all the possible capacity needed (490,000 MMBtu), that the cost of it would be over $74 million. (Ameren IB, p. 354) Of course, Ameren is arguing to have its cake and eat it too. Ameren takes the position that no one really wants the service and then inconsistently argues against providing it because of the problem of providing it if everyone takes it. At the very least, it could have applied the transportation participation rate of 20% and the average designation rate (unknown to Staff) to make an objective calculation on the likely usage. Since SBR is a cost-based service, all costs would be incurred exclusively by transportation customers. (See Staff IB, p. 314 and Staff Ex. 11.0, pp. 24-25)

e. Appropriate Daily Balancing Tolerances from 20% to 15%

Ameren claims its proposal is to do three things: create equity between sales and transportation customers (Ameren IB, p. 356), promote consistency between the interstate pipeline tariffs and Ameren's tariffs (*Id.*, p. 357), and keep up with the "current economic and industry trends." (*Id.*, p. 358) All of these reasons have been refuted elsewhere. While this change in balance tolerances may be desirable from Ameren's point of view, it is not necessary. "Transportation customers should be required to adhere to a tolerance range more in line with the LDC's requirements on the interstate pipelines." (Ameren IB, p. 357) As noted below, transportation customers already bear the cost of the pipeline penalties that they cause Ameren to incur. This proposal does not change that. It only makes it more costly for transportation to do business without a showing of need.

Ameren justifies its proposal by pointing to the availability of pipeline services providing customer flexibility. However, the pipeline services are not reasonable replacements for utility provided services. (Staff Ex. 23.0R, pp.14-15) Ameren clearly likes these services and makes good use of them. However, Ameren seems oblivious to the inconsistency between its own approach to service and that of the pipelines. Each

LDC contracts for services from the pipelines that insulate Ameren from the consequences of its imbalances. “These services effectively provide the Ameren Illinois Utilities with additional balancing flexibility and banking ability to operate within very tight tolerances.” (AMEREN IB, pp. 338-339) Ameren’s actual penalties are minute. These penalties are also split between transportation and sales customers in proportion of the imbalance of each group. The penalties of the sales customers are recovered through the PGA and the Penalties are allocated to the offending customers or groups. (Staff Ex. 11.0, pp. 30-31) As discussed in Staff Witness Sackett’s rebuttal testimony, pipeline services are not feasible substitutes to avoid imbalances on Ameren for its transportation customers. (Staff Ex. 23.0R, pp. 14-15)

f. Monthly/Daily Cashouts

Ameren summarizes its arguments here and clarifies its exceptions to its proposed normal cashout provisions. (Ameren IB, pp. 360-361) Staff opposes the penalties for over-deliveries and recommends that the Commission require that the Critical Day cashout be structured with over-deliveries cashed out exactly the same as normal deliveries for both OFOs and CDs. Over-deliveries by transportation customers will help the utility meet its supply shortcomings for sales customers on such occasions.

g. Intra-Day Nominations

Ameren argues against intra-day nominations stating “there is no demonstrated need for these additional nomination cycles.” (Ameren IB, p. 362) Ameren then gives two reasons for its claim. First, it claims that most of its transportation customers have not requested intraday nominations, and second, most of them manage their nominations efficiently. However, since Ameren did not consult with its transportation customers about its proposed offerings (Staff Ex. 11.0, p. 19), Staff believes that its claim has no validity. Perhaps if Ameren had sought input from its customers prior to filing its service revision, it would have discovered that they do want this service. Also, the fact that Ameren has just spent three rounds of testimony arguing that its transportation customers do not efficiently manage their nominations as a basis for Ameren's recommended changes further weakens Ameren's position on this issue.

In addition, Ameren objected that CNE-Gas compared Ameren unfairly to other LDCs that do offer these nominations as firm rights. However, Ameren dismisses this comparison because two of the other utilities reported were significantly larger. (Ameren IB, p. 363) Staff notes that this leaves seven other utilities for comparison, many from the Midwest. Staff also believes that Ameren's comparison to Nicor, Peoples, and North Shore on this issue is not valid because all of these utilities offer so much more flexibility that intra-day nominations would be less critical for them. (CNE-Gas IB, p.26) Therefore, Ameren's objections to intra-day nominations being extended to all four North American Energy Standards Board ("NAESB") times should be rejected.

h. Small Volume Transportation Tariff Across All Three Service Areas (Including Mandatory Telemetry)

Staff notes that the parties are not discussing the same issues under this heading. Ameren focuses on the telemetry requirements and charges, which Staff addresses in Section VII, B. 2. a. Ameren does not address Staff's proposal for a small volume tariff.

Ameren claims that the combined impact of these small, intermediate and seasonal transportation customers could create operation issues. (Ameren IB, p. 365) There is simply no evidence that this has been the case. The Ameren's mere stated belief that it could is insufficient rationale for making the change at this time.

Ameren uses misdirection on this argument. Staff and GFA are linking the need for telemetry to daily balancing Both Staff and GFA believe that there is no need for daily balancing for these customers and therefore, there is no need for daily telemetry. (GFA IB, pp. 2-3) Ameren's argument is that some customers have daily balancing and thus, need to have daily feedback. (Ameren IB, pp. 365-366) Monthly metering only requires monthly feedback. Ameren's proposed requirement for daily balancing creates the need for a daily meter. If there is no daily balancing, then this information is not necessary (but could be optional as in OT).

The central discussion in this issue is whether these charges for telemetry actually keep some customers from signing up for transportation service. Staff witness Sackett identified four objections to Mr. Warwick's testimony: 1) the assertion that the number of small customers taking transportation service are a small percentage of eligible customers; 2) his conclusions stem from current metering differentials and not the proposed charges; 3) Mr. Sackett's belief that the metering charge could be a barrier for some smaller transportation customers; and, 4) the charges may keep other marginal customers from benefiting from transportation services. (See Staff Ex. 23.0, p. 32)

Ameren concludes that Staff's positions are "speculative and not grounded in any credible evidence" (Ameren IB, pp. 367-368), but provides no reason for this conclusion. It may be because Ameren cannot understand that some customers may not have an extra $660 per year for metering fees lying around. The additional fee puts marketers at a disadvantage because they not only have to beat the PGA cost, they also have to beat it by this additional amount as well. Mr. Warwick noted in cross that other factors would affect these decisions and that the move to daily balancing, the loss of a bank, the requirement for a dedicated phone line and a reduction in a daily balancing could all be factors. (Tr., pp. 1086-1087, June 13, 2008)

Ameren points to the number of customers and concludes because some small customers are taking service with the daily balancing and telemetry, there must be no barrier for anyone. (Ameren IB, p. 367) However, this does not mean that there are not many other even smaller customers that are not taking service because they cannot get gas priced competitively enough to beat not only the PGA but also the costs associated with the daily balancing and cashout and the telemetry and metering charges.

Ameren also points to the small percentage of customers (less than 1%) that take service under Rider T in CILCO's service area. (Ameren IB, p. 367) and concludes that because CILCO does not have daily balancing and metering requirements and few customers are responding to this service, those costs must not be deterrents. However, Staff has concluded that it is Ameren's unfavorable policies that keep customers, especially the small ones, from finding transportation service to be desirable. Those percentages are likely to grow smaller if Ameren's restrictive proposals are approved.

The AIU object to Staff's alleged characterization of the metering charge as "mandatory". (Ameren IB, pp. 366-367) What Staff said was that the mandatory daily balancing and metering charges of $55 per month, Ameren's service will present an economic barrier for smaller customers." (Staff Ex. 11.0, p. 6) Therefore, what Staff said was mandatory was the daily balancing, not the metering charge. However since the daily metering service is mandatory and there is a charge for it for CIPS and IP, perhaps "mandatory" is not incorrect.

Also, Staff is concerned that Ameren states that "AmerenCILCO does not currently have the separate advance metering charge and *so the subject charge is new to that utility*." (Ameren IB, p. 367, emphasis added) According to Warwick's rebuttal testimony, Ameren dropped CILCO's metering differential and lowered the customer charge by its across-the-board rate change. (Ameren Ex. 27.0 (Rev), p. 18) Thus, for AmerenCILCO, the charge should no longer be at issue.

i. 12 Month Notification for Seasonal Customers

j. Minimal Winter Use Delivery Service Provisions

k. Weather Normalization

The Ameren Illinois Utilities does not agree that Weather Normalization is a contested issue. (Ameren IB, p. 371) Staff believes that this issue is clearly of interest to the Commission and Staff believes that it will be the Commission's decision to follow the Peoples' standard or deviate from it (which Staff acknowledges the Commission can do). Staff is merely following through on the Commission's order. There is a discrepancy between the Commission's guidance and Ameren's position. Therefore Staff believes that classifying this as contested (and, thus, in need of a decision here) is appropriate.

l. Imbalance Trading

m. Utility Right to Purchase (Confiscate) Customer-Owned Gas

n. Critical Day and OFO Notice Provisions

3. Electric

a. Supply Cost Adjustments

i. Supply Procurement Adjustment Amortization Period

Staff anticipated and fully addressed all of Ameren's arguments regarding the supply procurement adjustment amortization period adjustment (Ameren IB, pp. 385-386) in its Initial Brief (Staff IB, pp. 322-323).

ii. Overall Uncollectible Factors to be Used

Staff anticipated and fully addressed all of Ameren's arguments regarding the supply procurement adjustment amortization period adjustment (Ameren IB, pp. 385-386) in its Initial Brief (Staff IB, pp. 322-323).

iii. Cash Working Capital – Power Supply Expense Lead

The Companies disagree with Staff's proposed adjustment to the CWC component of Rider PER. The Commission should reject Ameren's arguments against Staff's proposal to use 23.94 expense lead days for the CWC component of Rider PER, instead of the 18.15 days proposed by the Companies. (Ameren IB, pp. 91-93) Ameren claims that Staff's logic is flawed and that it is reasonable to apply a shortened service period and advanced payment time in the transactions between the AIU and Ameren Energy Marketing Company. (*Id.*, p. 91) The Companies, however, are referring to the affiliates' payment terms (*Id.*, p. 91), whereas Staff is referring to the calculation of the CWC component of Rider PER. (Staff IB, p. 324)

Ameren finds fault with Staff's calculation of CWC that does not consider a shortened payment period for purchased power from Ameren affiliates because this consideration would handle power purchases from an affiliate differently than power purchases from a non-affiliate which it alleges is in violation of the electric nondiscrimination rules, Section 450.20 of the 83 Ill. Adm. Code. (*Id.*, pp. 91-92) This argument is nonsense and should be rejected. Part 450 does not apply because using a greater number of expense lead days for the CWC component of Rider PER, which causes Ameren to have a lower CWC requirement for purchased power, is not a preferential treatment of an affiliate. (Staff IB, p. 324)

b. Rate Limiter

c. Street Lighting

d. Other

CONCLUSION

For the reasons set forth in its Initial Brief and this Reply Brief, Staff respectfully requests that the Commission's Order in the instant proceeding reflect Staff's modifications to the Companies' proposed general increases in rates for gas and electric delivery services.

Respectfully submitted,

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July 15, 2008

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